

# ***State Budget and Budgeting Practices Interim***

*Jochum, Bernau, Poncy; Roger Halvorson, Tom Miller  
Boswell, Welsh, Varn; Lind, McLaren*

## **A. Focus on:**

- Statutory spending limitation
- Standing appropriations
- Legislative budgeting process
- Conformance with GAAP: delay mandate to achieve GAAP-balanced budget until new GASB standards take effect in FY 95. Make inroads in GAAP deficit now, FY 93. (Whole committee will deal with GAAP issue.)

**B. Establish three subcommittees. All need to address improved prioritization by legislative and executive branches: goal setting, long-range plans, etc. Budget decisions need to be driven by established priorities. Subcommittees recommendations shall not include a tax increase. (\* indicates co-chairs)**

### **1. STATUTORY SPENDING LIMITATION**

*Jochum\*, Halvorson, Boswell, Varn\*, Lind.*

- Based on Hatch plan, but simpler, and easier to explain to public. Overall spending limitation: don't have specific limit addressing growth in standings.
- Review LSB summary of differences at end of session.
- Need to take tax increase out of it, which will necessitate reworking it to make it less draconian.
- Update to include current FY 92.
- Summary of what other states do.

### **2. STANDING APPROPRIATIONS AND ENTITLEMENTS**

*Poncy\*, Bernau, Miller, Welsh\*, Lind*

- May consider specific limit addressing growth in standings and entitlements.
- Develop history of standings and entitlements, back to 1980 -- where and how has each appropriation grown, \$ and % of budget.
- Does a problem exist? What's the problem? Growth exceeding total budget growth? Growth exceeding revenue growth? Lack of long-range planning & prioritizing? Rewarding inappropriate behavior? Unfunded federal mandates? Formula using outdated information? Inflexibility?
- How has Iowa treated standings and entitlements in the past? What has worked and hasn't worked? What have other states done to successfully control them?
- Ways to improve Iowa process.

### 3. LEGISLATIVE BUDGETING

*Boswell\*, Poncy, Bernau\*, Halvorson, McLaren*

- *NOTE: Legislative Council has appointed a Legislative Procedures subcommittee to study the legislative budgeting process. Membership: Welsh, Hutchins, Lind, McKinney, Arnould, Harbor. They have not scheduled any meetings yet.*
- Examine other states with strong legislative role in budget
- Consider what should be accomplished, if anything, in early budget sub meetings held before session opens.
- Examine budget subcommittee process
- Membership of conference committees -- e.g. one big budget bill and one conference committee vs. 9 budget bills and 9 conference committees composed of budget sub members, or other options
- Consider changing fiscal year to coincide with federal FY. How many states have July 1 vs. other date. Are there advantages to moving to FFY? Disadvantages? Would change necessitate change in executive branch budget preparation calendar or legislative calendar to accomodate new timetable?
- Consider separate session to deal with budget

#### C. First meeting: September 26

- 10AM - David Fisher, chair of Governor's Committee on Government Spending Reform
  - Chairs should talk to him ahead of time, ask for cooperation and sharing of info. Publicly state the same at this meeting, when addressing Fisher for the first time. Say his staff is welcome to attend any of our meetings. Would appreciate periodic updates from his committee, as well as a draft of final recommendations. We will send same to him.
  - Fisher to explain what Gov's committee's charge is, how it's going about the work, what kinds of ideas are surfacing, what consultant is finding, what happened at the Sept. 17th retreat, summary of what subcommittees have done so far (some, if not all have, already met at least once), what Blue Ribbon Committee will do with subcommittee recommendations, etc.
- Calvin McKelvogue, DORF's GAAP guru.
  - Current GAAP status.
  - Status of future GAAP -- definitional changes, impact on GAAP deficit, when definitions likely to take effect, when Wall Street will look at new GAAP defns
  - Can he develop up-to-date FY 92 and FY 93GAAP balance based on current info -- legislative appropriations, 3.25% cut, layoffs?
  - Pros and cons of keeping our current GAAP balance deadline (FY 93) vs. pushing deadline back to FY 95, when new definitions will take effect.
  - Impact on TRANS (tax and revenue anticipation notes) of pushing deadline back, or leaving it the same and failing to meet GAAP balance deadline

- What are other states doing? How many have positive GAAP balances? Where does Iowa rank among the states, in terms of GAAP balances? How many are using future GAAP defns now? Is Iowa typical or atypical?
- AFTER LUNCH: Open discussion by committee members; establish subcommittees
- Subcommittees meet for balance of the afternoon.

#### **D. Future meetings**

- Second meeting (by October 18)
  - Turned over to subcommittees, at a date to be determined by each subcommittee.
- Third meeting: be prepared for a long meeting
  - Morning - Subcommittees finalize recommendations
  - Afternoon - Subcommittee reports to full committee. Full committee discusses subcommittee recommendations, takes action on them if possible that day
- Fourth meeting -- requires approval from Legislative Council
  - Full committee finalizes recommendations, if not accomplished at third meeting.

**MEMBERSHIP LIST**  
**IMPROVING GOVERNMENT EFFICIENCY AND**  
**OPERATIONS INTERIM STUDY COMMITTEE**

Senator William Palmer,  
Temporary Co-chairperson  
1340 E. 33rd St.  
Des Moines, IA 50317  
O - 515/265-3437

Senator Mary Kramer  
1209 Ashworth  
West Des Moines, IA 50265  
H - 515/224-7613  
O - 515/245-5057

Senator Berl Priebe  
2106 - 100th Ave.  
Algona, IA 50511  
H - 515/295-7058

Senator Harry Slife  
2027 Minnetonka Drive  
Cedar Falls, IA 50613  
H - 319/266-5186  
O - 319/235-1521

Senator Richard Varn  
3163 Sandy Beach Road NE  
Solon, IA 52333  
H - 319/848-7533  
O - 319/363-9196

Tom Bedell  
Berkley & Company  
1 Berkley  
Spirit Lake, IA 51360  
O - 712/336-1520

Vicki Brown  
539 N. 3rd  
Marshalltown, IA 50158  
H - 515/753-0645  
O - 515/752-1501

Representative Phil Wise,  
Temporary Co-chairperson  
503 Grand Ave.  
Keokuk, IA 52632  
H - 319/524-3643  
O - 319/524-2542

Representative Kenneth De Groot  
502 Main Street, Box 96  
Doon, IA 51235  
H - 712/726-3180

Representative Deo Koenigs  
R.R. 2, Box 36A  
Osage, IA 50461  
H - 515/983-4435

Representative David Millage  
3077 Willowwood Drive  
Bettendorf, IA 52722  
H - 319/332-8723  
O - 319/355-5303

Representative Mike Peterson  
207 E. 10th Street, #1  
Carroll, IA 51401  
H - 712/792-1789  
O - 712/792-1548

Mike Whalen  
5005 Brookview Ct.  
Bettendorf, IA 52722  
H - 319/391-7562



# GENERAL ASSEMBLY OF IOWA

## LEGAL AND COMMITTEE SERVICES DIVISION

JOHN C. POLLAK, ADMINISTRATOR

### LEGAL COUNSELS

DOUGLAS L. ADKISSON

AIDA AUDEH

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SUSAN E. CROWLEY

MICHAEL J. GOEDERT

MARK W. JOHNSON

GARY L. KAUFMAN

MICHAEL A. KUEHN

LESLIE E. WORKMAN

### RESEARCH ANALYSTS

PATRICIA A. FUNARO

KATHLEEN B. HANLON

THANE R. JOHNSON



## LEGISLATIVE SERVICE BUREAU

STATE CAPITOL BUILDING

DES MOINES, IOWA 50319

(515) 281-3566

FAX (515) 281-8027

DIANE E. BOLENDER, DIRECTOR

RICHARD L. JOHNSON, DEPUTY DIRECTOR

September 20, 1991

## MEMORANDUM

## ADMINISTRATIVE CODE DIVISION

LUCAS BUILDING (515) 281-5285

PHYLLIS V. BARRY

ADMINISTRATIVE CODE EDITOR

## LEGISLATIVE INFORMATION OFFICE

CAPITOL BUILDING (515)-281-5129

JULIE E. E. LIVERS

DIRECTOR

## IOWA CODE DIVISION

LUCAS BUILDING (515) 281-5285

JOANN G. BROWN

IOWA CODE EDITOR

JANET L. WILSON

DEPUTY IOWA CODE EDITOR

**TO: Temporary Co-chairpersons Senator Boswell and Representative Jochum and Members of the State Budget and Budgeting Practices Study Committee**

**FROM: John Pollak and Mike Goedert** *MTG*

**RE: Background Information**

The following items of background information are attached for your review:

1. Attachment 1 includes excerpts from the document providing information for the issuance of Iowa Tax and Revenue Anticipation Notes (TRANS) for FY 1991-1992. The excerpted information describes the state budget in narrative form and financial chart. Copies of the complete TRANS document are available.
2. Attachment 2 is a written summary of the state budget process prepared by the Legislative Fiscal Bureau.
3. Attachment 3 is a summary of expenditure limitation legislative proposals passed by the House of Representative and the Senate during the 1991 Session prepared by the Legislative Service Bureau.
4. Attachment 4 is an overview of a presentation concerning tax and expenditure limitations (TELS) prepared by National Conference of State Legislatures staff. It should be noted that the analysis emphasizes that most states have implemented TELS in an effort to control the growth of government. The Delaware law, which is most similar to the proposals passed by the Iowa House and Senate, is considered to be quite different than the statutes of the other TELS states in that the focus is on budget control.

## **CONFIRMATION**

**The first meeting of the State Budget and Budgeting Practices Interim Study Committee will be held on Monday, September 30, 1991, at 10:00 a.m. in Committee Room 22 of the State Capitol.**

**STATE BUDGET AND BUDGETING PRACTICES  
STUDY COMMITTEE**

**MEMBERS**

*Senator Leonard Boswell,  
Temporary Co-chairperson  
Senator Jim Lind  
Senator Derryl McLaren  
Senator Richard Varn  
Senator Joe Welsh*

*Representative Tom Jochum,  
Temporary Co-chairperson  
Representative Bill Bernau  
Representative Roger Halvorson  
Representative Tom Miller  
Representative Charles Poncy*

**TENTATIVE AGENDA**

Monday, September 30, 1991  
Committee Room 22

- 10:00 a.m.      Convene Meeting  
                    - Roll Call  
                    - Elect Co-chairpersons  
                    - Adopt Rules
- 10:15 a.m.      Presentation:  
                    - Mr. David Fisher, Chairperson  
                    Governor's Committee on Government Spending Reform
- 10:50 a.m.      Presentation:  
                    - Mr. Calvin McKelvogue, Department of Revenue and Finance  
                    Report on Generally Accepted Accounting Principles (GAAP)
- 11:35 a.m.      Presentation:  
                    - Mr. Larry Thornton, Deputy Treasurer of State  
                    Report on Tax and Revenue Anticipation Notes
- 12:00 Noon      Luncheon Recess
- 1:15 p.m.      Reconvene  
                    Committee Discussion  
                    Break Into Subcommittees  
                    Establish Subcommittee Meeting Dates
- /
- Additional Business, if any

**ADJOURNMENT**

## APPROPRIATION PROCESS STATE OF IOWA

The legislative appropriation process of the State of Iowa is based upon an annual budget system. The process involves both the Legislative Branch and Executive Branch of government. Chapter 8, Code of Iowa, requires that the State budget be balanced, with the estimated revenues in a sufficient amount to fund the designated expenditures.

The following is a sequential explanation of the annual appropriation process:

1. The departments are required to submit budget requests to the Department of Management (DOM) by September 1 for the following fiscal year. However a department may alter a budget request prior to November 15 if necessary.
2. DOM reviews each department's budget request for accuracy and rationale. The Governor's Office and DOM review this process in preparation for the budgetary hearings. DOM also transmits the budget requests to the Legislative Fiscal Bureau (LFB) to permit analysis by legislative analysts. DOM must transmit all department requests to the LFB in final form by November 15. LFB publishes an annual document summarizing the information.
3. Public hearings are scheduled between the departments, DOM, and the Governor's Office. The public hearings are utilized to clarify the departmental requests and to answer questions by DOM or the Governor's Office regarding the requests. The hearings are typically scheduled in December and the LFB staff attend the hearings to obtain additional information relating to the departmental budget requests.
4. The Revenue Estimating Conference (REC) is a committee created to develop state revenue estimates to be used by the Governor and the General Assembly in preparation of the State's annual budget. The REC may meet as often as deemed necessary, but must meet at least quarterly for updating the revenue estimate. The REC is comprised of 3 members: the Director of the LFB, the Director of DOM (the Governor's designee) and a third member agreed to by the specified 2 members.
5. After the completion of the series of hearings, and using the Revenue Estimating Conference estimate, the Governor's Office develops the Governor's Budget Recommendations to be presented no later than February 1 to the General Assembly.
6. Although a statutory provision does not specify, the General Assembly may schedule its own initial hearings on the departments' budget requests in late December or early January. LFB makes the arrangements after consultation with the co-chairpersons of the individual appropriations subcommittee.

7. The General Assembly convenes annually on the second Monday of January. The Governor appears before a joint convention of the General Assembly by the February 1 statutory requirement to formally present the budget recommendations which is comprised of 3 sections: budget message, recommended appropriations, and proposed appropriations bills.
8. The Legislative Branch becomes the focal point in the appropriation process. The General Assembly's non-partisan fiscal staff (LFB) provides staff support and information by analyzing the Governor's proposed budget.
9. The legislative leaders develop guidelines and set timetables as to when certain steps take place in the process. After these guidelines and timetables have been established, the appropriations subcommittees begin evaluating the Governor's recommended budgets for each department.
10. The subcommittees are usually held jointly with members of both the House and Senate. The topic areas and membership of the subcommittees are determined by the legislative leadership.
11. The appropriations subcommittees meet approximately 3 mornings each week for the first 2 months of the legislative session examining in detail the different departmental budget requests and the Governor's recommendations. The subcommittees hold hearings at which departmental personnel and other interested parties give testimony and answer questions regarding the budget.
12. Following the hearings, the subcommittees make recommendations concerning appropriations, FTE positions, intent language, and statutory language for each department under the purview of the subcommittee for the upcoming fiscal year. These recommendations are usually made to the Appropriations Committees of both chambers in bill draft form. If the subcommittees of each chamber agree, a joint recommendation is made. If agreement is not reached, the House and Senate subcommittees make separate recommendations to the respective Appropriations Committee.
13. The Appropriations Committee in 1 chamber, chamber of origin decided by legislative leadership, reviews the subcommittees' recommendations and decides to accept or amend the budgetary recommendations. The Appropriations Committee approves a bill draft to be sent to the full body of the chamber for consideration.
14. Once approved by 1 chamber, a budget bill is sent to the Appropriations Committee of the other chamber. The process is then repeated as in the originating chamber. A conference committee is created if differences between the 2 chambers are not settled after the amendment process.
15. Upon passage of a budget bill by both chambers in identical form, the bill goes to the Governor for signature or enactment. The Governor has 3 days (not including Sunday) to approve or veto bills which have been submitted for approval before the final 3 days of the legislative session. The Governor has 30 days from adjournment to approve or veto bills submitted during the final 3 days of the session.

16. The Governor has item veto power for appropriation bills. If the Governor chooses to exercise this power, the General Assembly may override the item veto before adjournment or during a special session.
17. Unless otherwise specified, the budget is then in effect beginning July 1 following the legislative session.

## EXPENDITURE LIMITATION ACTIONS DURING THE 1991 SESSION

**Bill History.** The House of Representatives passed House File 713 by the Committee on Appropriations on May 11, 1991. The bill was amended by the Senate with Senate Amendment H-4144 and passed on May 12, 1991. The House did not act on the bill as it was amended by the Senate before the General Assembly adjourned on May 12, 1991.

**Title.** (As passed by the House) A Bill For An Act relating to state budget and financial control by requiring certain financial practices and establishing a temporary fund and a capitals fund, limiting the amount of federal income tax that may be deducted for individual income tax purposes, and providing a retroactive applicability provision.

(As amended by the Senate) A Bill For An Act relating to state budget and financial control by requiring certain financial practices and establishing a temporary fund and a capitals fund, ~~limiting the amount of federal income tax that may be deducted for individual income tax purposes, and providing a retroactive applicability provision.~~

### Section-by-Section Comparison of House and Senate Versions.

House File 713 - House Version	Senate Amendment H-4144
<b>Section 1.</b> Requires expenses to be accounted for in the year in which the expense is incurred (Generally Accepted Accounting Principle (GAAP). Requires the Governor and the General Assembly to enact budgets which reflect this requirement. Also requires the Department of Management to provide to the Legislative Fiscal Committee by July 10 a list of those expenses remaining from the previous year which were not paid.	Strikes this section.
	Revises the existing system for departmental budget estimates. At present, departments are required to submit an estimate which is 75% of the funding provided for the current fiscal year. The Senate would change this to 0%. A new budgeting system would be implemented requiring the budget to be submitted as a performance line item budget with specified documentation. This would apply to each department and establishment beginning with a designated fiscal year and every sixth fiscal year thereafter.

<p><b>Sec. 2.</b> Revises provisions of the Iowa Economic Emergency (Rainy Day) Fund.</p> <ul style="list-style-type: none"> <li>- Removes usage of this Fund's balance for purposes of determining the annual inflation factor for state individual income tax.</li> <li>- Revises the maximum balance of the Fund from 10 percent of funds appropriated in a fiscal year to 5% of revenue deposited less tax refunds in the General Fund in the latest fiscal year.</li> <li>- Establishes a definition of "adjusted revenue estimate" which utilizes the Revenue Estimating Conference estimate made in December from which is subtracted estimated tax refunds.</li> <li>- Provides that any amount above the maximum balance and interest are to be transferred to a new Capitals Fund established by the bill.</li> <li>- Limits appropriations made from the Fund to nonrecurring emergency expenditures.</li> </ul>	<p><b>Sec. 2.</b> Same except as follows:</p> <ul style="list-style-type: none"> <li>- Removes the December date from this definition.</li> <li>- Provides that overages in the Economic Emergency Fund may also be transferred to the GAAP Deficit Reduction Fund established by the bill.</li> </ul>
<p><b>Sec. 3.</b> Establishes a temporary GAAP Deficit Reduction Fund for use until the state GAAP deficit is eliminated. The moneys in this Fund are not considered to be part of the General Fund and do not revert. However, moneys remaining when the deficit is eliminated are to be transferred to the Economic Emergency Fund. The GAAP deficit definition utilized in Section 1 is also used here. Moneys in the fund are to be appropriated to pay expenses in the fiscal year in which the expenses are obligated.</p>	<p>Same</p>
<p><b>Sec. 4.</b> Establishes a General Fund Expenditure Limitation.</p> <ul style="list-style-type: none"> <li>- Uses the Revenue Estimating Conference estimate made in December as the basis for a definition of "adjusted revenue estimate"</li> <li>- Would establish the limitation beginning in the 1992-1993 Fiscal Year.</li> <li>- The limitation is equal to 99% of the Revenue Estimating Conference adjusted December estimate for the following fiscal year. Any appropriation made to the Economic Emergency Fund is considered to be from the remaining 1%.</li> <li>- The limitation is required to be used by the Governor and the General Assembly. Any new revenue source is subject to the same limitation.</li> </ul>	<ul style="list-style-type: none"> <li>- Removes the December limitation from this definition.</li> <li>- Would establish the limitation beginning in the 1993-1994 Fiscal Year.</li> </ul>



<p><b>Sec. 5.</b> Establishes a new Capitals Fund</p> <ul style="list-style-type: none"> <li>- Moneys can only be used for capital and maintenance projects which have been submitted to the Legislative Capital Projects Committee.</li> <li>- Provides for limitations on expenditures to this fund and for revenue deposited into the Fund from earnings from the Economic Emergency Fund and General Fund surpluses.</li> </ul>	<p>Same</p>
<p><b>Sec. 6.</b> Provides that moneys deposited in the Economic Emergency Fund, GAAP Deficit Reduction Fund, and the Capitals Fund are not to be included in the computation of the state percent of growth for the School Foundation Aid Formula.</p>	<p>Same</p>
<p><b>Secs. 7 through 9 and 11.</b> Limits the deductibility of federal income taxes for state income tax purposes.</p> <ul style="list-style-type: none"> <li>- Provides that federal deductibility is limited to \$25,000.</li> <li>- Provides that the revenue realized through this provision is to be equally divided between the Economic Emergency Fund and the GAAP Deficit Reduction Fund. When the GAAP Deficit is eliminated, all this revenue would go to the Economic Emergency Fund.</li> <li>- This provision would be applicable to tax years beginning on or after January 1, 1991.</li> </ul>	<p>The Senate struck these provisions. In lieu of these provisions, the Legislative Council is to create an interim Study Committee to study and make recommendations on methods to address the state's chronic budgetary problems. Certain areas are specifically enumerated for study.</p>



## NATIONAL CONFERENCE OF STATE LEGISLATURES

1560 BROADWAY SUITE 700 DENVER, COLORADO 80202  
303-830-2200 FAX: 303-863-8003

## TAX AND EXPENDITURE LIMITATIONS

Corina Eckl and Scott Mackey  
Fiscal Affairs Program  
National Conference of State Legislatures

Outline of remarks to the  
Joint Finance Committee  
Colorado General Assembly  
July 15, 1991

JOHN MARTIN  
SPEAKER OF THE HOUSE  
MAINE  
PRESIDENT, NCSL

WILLIAM RUSSELL  
CHIEF LEGISLATIVE COUNSEL  
VERMONT  
STAFF CHAIR, NCSL

WILLIAM POUND  
EXECUTIVE DIRECTOR

## I. INTRODUCTION

Nineteen states currently impose tax or expenditure limits (TELs). These states are listed in Table 1. Of these 19 TELs, 12 are tied to growth in personal income; others are tied to changes in population, the inflation rate, or both. Seventeen TELs were adopted before 1983.

## II. EFFECTIVENESS OF STATE TELS

To evaluate the effectiveness of state TELs it is first important to define their objectives. If their objective is to "control the growth of state government," they have not been effective. If their goal is to "constrain the growth of state government," they can be viewed anecdotally as being more effective. However, current literature based on the former objective concludes that TELs have been ineffective. According to one study, there is no significant difference between spending and tax levels in states with limitations and those without.

Why they are ineffective:

- o Certain expenditures are exempt from the limitations (e.g., trust funds, capital construction funds).
- o When most TELs were originally enacted, the ratio of spending to personal income was at a high level. Consequently, the base of most limits is correspondingly high.
- o Economic downturns have increased the gap between available revenues and limits placed on states by TELs.
- o State policymakers generally have been reluctant to raise taxes.

Why TELs are considered somewhat effective:

- o Their mere presence has induced caution within state government by having focused attention on, and possibly constraining, budget requests or appropriations.

- o They demonstrate a commitment to restricting the growth of spending and taxing.

More important than TELs in limiting the growth of state government are:

- o The anti-tax sentiment displayed by citizens and the corresponding reluctance of elected officials to impose tax increases; and
- o The current structure of state tax systems (most of which do not respond to the growth of the economy), which fail to generate adequate revenues to keep pace with spending demands.

### III. ARE CERTAIN STRUCTURES BETTER THAN OTHERS?

There is no evidence that some TELs are designed better than others. In fact, as previously discussed, they are all generally considered ineffective. However, three states have bumped up against their limitations (California, Massachusetts, and Oregon) and provided refunds to taxpayers.

### IV. ALTERNATIVES TO STATE TELS

The most popular example of another option to limiting state spending is Maryland's Spending Affordability Committee. It annually recommends the desirable increase in state spending (which is loosely related to the growth of personal income). It also considers five-year projections of spending and revenues.

### V. LOCAL TELS

Local TELs are more widespread than state TELs. Forty-three states have some type of limit local taxes or spending, although in only 28 of these states are they considered potentially restrictive. Local TELs are an important part of the tax limitation picture in Colorado because:

- o Colorado is one of only five states where local governments raise more tax revenue than the state;
- o Colorado has very low state tax levels, 48th in the country in FY 1990 at 5.18 percent of personal income; local taxes rank 6th nationwide at 5.58 percent of personal income. (See Table 2) Obviously local taxes are a key contributor to anti-tax sentiment.
- o Nationally, property taxes drive tax revolts. In Colorado property taxes ranked 21st nationally in FY 1989, accounting for 3.86 percent of personal income (see Table 3). Taxpayers view property taxes as the most unfair tax, according to polls by the U.S. ACIR. California and Massachusetts tax limitations were directed at property taxes, and voters in Oregon approved a very restrictive property tax limit just last November.
- o Six of the seven key tax and spending limitation bills (identified by Legislative Council staff) considered by the General Assembly in the 1991 session addressed local taxation.

### VI. STRUCTURE OF LOCAL TELS

The most restrictive local limitations are *rate limits* (usually as a percent of market value), *levy limits* (which generally limit revenues to a set percentage over the previous year), and *expenditure limits*. Table 4 summarizes state limits on local governments.

Truth in taxation provisions are by themselves not restrictive, and limits on assessment increases are not restrictive unless accompanied by rate limits (as is the case in California).

All local TELs exclude debt service and many have provisions for voters to override the limits.

#### VII. LOCAL TELS HAVE RESTRICTED LOCAL TAXES AND SPENDING.

Unlike state TELs, many local TELs have been restrictive. One study shows that average local tax levels in states with local limitations are below average local tax levels in states without restrictive limitations.

However, in states without state limitations, states have increased aid and assumed local government functions. In these states, the overall effect of local TELs has been a shift in taxation from the local to the state level. In general, overall state-local tax levels have not dropped. Examples include Massachusetts, which provide massive new state aid after passage of Proposition 2 1/2, and Nevada, which provided sales tax authority to local governments.

In states with both state and local TELs, states were constrained somewhat in helping local governments offset the impact of limitations. In these states, local tax levels typically fell while state tax levels increased somewhat. State-local tax levels in states with both state and local TELs were moderately lower than those with only local TELs.

filter thru gov't

Table 1.  
State Spending and Tax Limitations

1990

348 avgs

State	Year Adopted	Constitutional or Statutory	Limit Applies to	Nature of Limit
Alaska	1982	Constitutional	Appropriations	Growth of population and inflation
Arizona	1978	Constitutional	Appropriations	7 percent of personal income
California	1979	Constitutional	Appropriations	Growth of population and inflation <sup>a</sup> (personal income)
Colorado	1977	Statutory	Appropriations	7 percent A
Hawaii	1978	Constitutional	Appropriations	Personal income growth
Idaho	1980	Statutory	Appropriations	5.33 percent of personal income ✓
Louisiana	1979	Statutory	Tax revenue	Ratio to personal income in 1979
Massachusetts	1986	Statutory	Revenue	Growth of wages and salaries
Michigan	1978	Constitutional	Revenue	Ratio to personal income in 1979
Missouri	1980	Constitutional	Revenue and Expenditure	Ratio to personal income in 1981
Montana	1981	Statutory	Appropriations	Personal income growth
Nevada	1979	Statutory	Expenditure <sup>b</sup>	Growth of population and inflation
Oklahoma	1985	Constitutional	Appropriations	12 percent adjusted for inflation
Oregon	1979	Statutory	Appropriations	Personal income growth
Rhode Island	1979	Statutory	Appropriations <sup>b</sup>	6 percent
South Carolina	1980, 1984	Constitutional	Appropriations	Personal income growth
Tennessee	1978	Constitutional	Tax revenue	Personal income growth
Texas	1978	Constitutional	Appropriations	Personal income growth
Utah	1989	Statutory	Appropriations	Growth of population and inflation
Washington	1979	Statutory	Tax revenue	Personal income growth

Notes:

Delaware is not included because its limit is of a different nature, requiring that appropriations may not exceed 98 percent of estimated revenue and prior year's unencumbered funds. New Jersey and New Mexico are not included because their limits expired in 1983 and 1989, respectively.

- a. California limit is based on personal income growth if that measure is less than sum of population growth and the inflation rate.
- b. Limit applies to governor's budget request but not to legislative action.

Source: U.S. Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism: 1990 Edition*, Vol. 1 (Washington, D.C.: U.S. Government Printing Office, 1990), pp. 10-13.

## **MINUTES**

### **STATUTORY SPENDING LIMITATION SUBCOMMITTEE OF THE STATE BUDGET AND BUDGETING PRACTICES INTERIM STUDY COMMITTEE**

**SEPTEMBER 30, 1991**

#### **PRELIMINARY BUSINESS**

The Statutory Spending Limitation Subcommittee of the State Budget and Budgeting Practices Interim Study Committee was called to order at 2:30 p.m. by Co-chairperson Representative Thomas Jochum. In addition to Co-chairperson Jochum, the following members of the Subcommittee were present:

Senator Richard Varn, Subcommittee Co-chairperson  
Senator Leonard Boswell, Full Committee Co-chairperson  
Representative Roger Halvorson

Senator Jim Lind was in attendance at a different subcommittee which held its meeting at the same time.

Also in attendance were members of the legislative staff and other interested persons.

#### **SUBCOMMITTEE DISCUSSION**

The members first discussed the Subcommittee's focus of study. Co-chairperson Jochum suggested that the Subcommittee begin by studying House File 713, an Act relating to state budget and financial control by requiring certain financial practices and establishing a temporary fund and a capitals fund, limiting the amount of federal income tax that may be deducted for individual income tax purposes, and providing a retroactive applicability provision. He suggested that the Subcommittee study all aspects of this bill and the Senate amendment, with the exception of the provision relating to limiting the amount of federal tax deductibility, and that the committee study the proposal put forth by Auditor of State Richard Johnson which was discussed earlier during the full committee meeting. Co-chairperson Jochum commented that, if the state should adopt a spending limitation plan, which includes a mechanism to eliminate the GAAP deficit, there must also be a revenue source in the plan.

Representative Halvorson acknowledged that the Subcommittee should rework House File 713 as amended by the Senate. He also stated that the

Subcommittee should look at only those things that are possible to accomplish. He opined that the Johnson plan is likely to meet with considerable legislative opposition. He further stated that the Johnson plan may be in conflict with the approach contemplated by the Governor's Task Force on Spending Reform which, preliminarily, is studying spending cuts. He reminded the members that it would be difficult, if an impasse on approaches to resolve the budget problem arises and it comes to a vote, for the General Assembly to override a gubernatorial veto.

Senator Boswell also agreed that the Subcommittee should look at House File 713 as a framework. In terms of possibilities, he stated that the Subcommittee should not consider a plan that includes any changes in the income tax law.

Senator Varn noted that another interim study committee is also studying the Johnson plan. Furthermore, he suggested, the charge of the Subcommittee and the Johnson plan address two different issues. He stated that the Johnson plan would augment a spending limitation plan. In conclusion, Senator Varn said that it would be premature to rule out the Johnson plan without the benefit of further study.

Representative Jochum then suggested that the Subcommittee first study the impact of implementation of House File 713 without its federal income tax deductibility provision, and then study the impact of implementation of a combination of a revised House File 713 and the Johnson plan. He noted that the study committee recommendations to the full General Assembly should provide options and the effects of any recommendations made.

Senator Boswell stated that the Subcommittee must address the issue of standing appropriations, noting that the State will need approximately 10 percent annual growth in revenue to maintain the current standing appropriations. Representative Halvorson concurred, adding that the Subcommittee should particularly study court-ordered juvenile services, foster care, and the school foundation formula and the impact of this year's budget cuts in the latter area on next year's property taxes.

Senator Varn stated that the Subcommittee should develop the physical structure of a spending limitation plan, be it a percentage tied to the previous year's spending or to the inflation index. He noted that a spending limitation plan may require a major first step such as freezing budgets. Representative Halvorson concurred, stating that the key to a spending limitation plan is the basis for determining the limitation. He opined that a plan which ties the limitation to the previous year's revenues would be the most prudent approach.

### NEXT MEETING

The Subcommittee agreed that its next meeting would be Thursday, October 17, 1991, from 9:00 a.m. to approximately 2:30 p.m. Legislative Service Bureau staff were instructed to check on the possibility of inviting staff from the National Conference of State Legislatures to speak on spending limitation plans. The staff members were also instructed to prepare a packet of informational materials for the members to augment the background material previously mailed.

### ADJOURNMENT

There being no further business, the Statutory Spending Limitation Subcommittee adjourned at 2:50 p.m.

Respectfully submitted,

SUSAN CROWLEY  
Legal Counsel

2668IC



## MINUTES

### STATUTORY SPENDING LIMITATIONS SUBCOMMITTEE OF THE STATE BUDGET AND BUDGETING PRACTICES INTERIM STUDY COMMITTEE

OCTOBER 17, 1991

#### PRELIMINARY BUSINESS

The Statutory Spending Limitations Subcommittee of the State Budget and Budgeting Practices Interim Study Committee met on October 17, 1991, in Room 22 of the State Capitol Building in Des Moines, Iowa. The meeting was called to order by Co-chairperson Senator Richard Varn at 9:21 a.m. In addition to Co-chairperson Varn, the following members of the Subcommittee were present:

Co-chairperson Thomas Jochum  
Senator Leonard Boswell  
Senator Jim Lind  
Representative Roger Halvorson

Also in attendance were members of the legislative staff and other interested persons.

Senator Boswell moved adoption of the minutes from the September 30, 1991, meeting previously distributed to the members. The motion was approved by voice vote.

#### MR. RON SNELL, NATIONAL CONFERENCE OF STATE LEGISLATURES

Co-chairperson Varn introduced Mr. Ron Snell, Fiscal Program Manager for the Colorado office of the National Conference of State Legislatures, to speak to the Subcommittee about expenditure limitations statutes among the states. Mr. Snell introduced himself by stating that, as Fiscal Program Director for Oklahoma's House of Representatives, a position similar to that of Dennis Prouty of the Legislative Fiscal Bureau, he helped write Oklahoma's general revenue expenditure limitations statute. Mr. Snell noted that House File 713 is similar to that Oklahoma statute.

Mr. Snell stated that expenditure limitations statutes are aimed at controlling growth of state expenditures by controlling revenues on the theory that the state will spend whatever it brings in. He added that these statutes are not aimed at shrinking state government, but to simply control the growth of state expenditures. He continued that all expenditure limitations statutes presume the growth in the

number of state dollars, but they try to control it in proportion to growth of the state economy. For this reason, he added, almost all expenditure limitations statutes are pinned to either the inflation rate or growth of personal income in a state, sometimes with a population factor thrown in. Personal income, he explained, is all income received, e.g., rents, dividends, salaries, and is a good measure of the money available for people to spend in the state.

Mr. Snell noted that the 19 states with expenditure limitations statutes adopted them between 1978 and 1983 in response to double-digit inflation and, in some states, rising property tax concerns. In response to Co-chairperson Jochum's inquiry, Mr. Snell informed the Subcommittee that each year six to eight states consider enacting an expenditure limitations statute.

In response to a question on the effectiveness of expenditure limitations statutes, Mr. Snell stated that two good studies comparing the rate of state government growth in states with expenditure limitations statutes and states without have concluded that there is virtually no difference in the rate of state growth and the rate of state spending between the two groups of states. He added that the average rate of growth between the two groups of states over the last 10 years has been almost identical.

Mr. Snell listed five factors which he believes reduce the effectiveness of expenditure limitations statutes: (1) a great deal of state spending is exempted from the limitation; (2) easy-to-effect clauses which allow a legislature to bypass the expenditure limitations; (3) legislatures earmarked new taxes for particular expenditures, thus exempting the revenue and the expenditure from the limitations; (4) statutes which tied the expenditure limitations to rate of growth in personal income resulted in general tax revenues growing at approximately the same rate as personal income and, therefore, allowable growth in expenditures was the same whether or not there was an expenditure limitations statute in place; and (5) no limitations were placed on local government spending when limitations were placed on state spending and state expenditures were shifted to local governments through unfunded mandates.

Mr. Snell pointed out that there are alternatives to expenditure limitations statutes. He stated that Maryland has established a Spending Affordability Committee which meets annually to recommend to the General Assembly and the Governor the desirable rate of increased state spending. He noted that this goes beyond a revenue forecast function. Mr. Snell stated that the Maryland model has been fairly successful because both the General Assembly and the Governor take it seriously and because Maryland had a growth in revenue in the last several years.

Mr. Snell noted that the Delaware model, which was adopted by Oklahoma in 1985, is more of a cash management tool than an expenditure limitation. He stated that it limits the amount of general fund revenue that can be appropriated

and provides for a built-in reserve in the general revenue fund and that Delaware limits appropriations to 98 percent of the revenue forecast and the remaining 2 percent, if it comes in, is deposited in a rainy day fund. Mr. Snell added that the real purpose of the Delaware and Oklahoma statutes is to establish reserve funds in case a particular year's revenues do not meet expectations. This is a prudent device, he noted, and Oklahoma is currently on a very sound fiscal basis.

### SUBCOMMITTEE DISCUSSION

In response to a question by Senator Lind, Mr. Snell stated that the interest earned from Oklahoma's reserve fund is required by that state's constitution to be deposited in the general revenue fund of the state. Mr. Snell further stated that this is simply a peculiarity of the Oklahoma Constitution which requires interest from all funds, except pension funds, to be deposited in the state's general revenue fund. In response to observations made by Co-chairperson Jochum, Mr. Snell stated that Oklahoma had established a strong revenue base before it enacted its most recent expenditure limitations statute by enacting major tax increases prior to enactment of the limitations. Mr. Snell agreed that the Iowa Legislature could be tying its hands if it enacted an expenditure limitations statute without addressing the state's deficit or providing for revenue growth.

Co-chairperson Varn observed that some states use an expenditure limitation as a default strategy to avoid having to set priorities. He inquired whether any states had, in the alternative, resolved to study and reorder expenditure priorities. Mr. Snell responded that any state legislature which creates a budget roughly in balance, given these economic times, is already making a lot of tough decisions on priorities. He further noted that in 1991, approximately 66 percent of states' budgets were appropriated to corrections, Medicaid, Aid to Families with Dependent Children, and education. He concluded that proposed expenditures in these areas for 1992 comprised 70 percent of states' total budgets.

Senator Boswell noted, and Co-chairperson Varn agreed, that expenditure limitations at the local level also would be appealing to people interested in shifting the property tax burden to the income tax.

In response to Representative Halvorson's questions, Mr. Snell stated that, although 10 states have constitutional spending limitations, there is no correlation between an expenditure limitation's effectiveness and whether the limitation is constitutional or statutory. He stated that some states require a supermajority vote to override a statutory limitation, he continued. The question, Mr. Snell asserted, is whether a legislature really wants to bind itself absolutely in the face of possible unforeseen consequences.

In response to Subcommittee discussion, Mr. Snell cautioned that the state's deficit under generally accepted accounting principles (GAAP) and the question of enacting an expenditure limitation are separate issues and would be more manageable if handled separately. He further stated that the state should utilize an expenditure limitation as a practical means of cash management rather than as a short-term solution to the GAAP deficit. Mr. Snell stated that he thinks House File 713 will work well as an expenditure limitation, but it will not raise enough revenue to deal, on a short-term basis, with the GAAP deficit. An expenditure limitation does not necessarily contain deficit spending, he explained, especially when one takes into account the effect of standing appropriations and the practices of rolling expenditures forward and postponing payments. He added that these practices could easily cause a state to slide forward into deficit spending, and legislation like House File 713 would not necessarily prohibit this from happening.

Representative Halvorson stated that there are two weaknesses of House File 713 that he thinks will cause the legislation to be ineffective. First, he added, the bill ties the limitation to anticipated revenues rather than to last year's revenues; and, second, because of Iowa's use of standing unlimited appropriations, there are built-in unknowns in state expenditures. Mr. Snell stated that Representative Halvorson's assessment is correct, but further noted that the real problem is the unforeseeability of expenditures. He stated that revenue estimates, in general, are usually not off by more than 5 percent nationally, so the practice of appropriating only a percentage of that estimate is comparable in accuracy to the use of 100 percent of the prior year's revenues as a basis. The real issue, he asserted, is that expenditures simply get out of hand, as is the current case where both inflation and health care costs are rising. A limitation on expenditures only varnishes the problem of the growth of demand on expenditures, he concluded.

Co-chairperson Varn concluded, then, that the use of anticipated revenues as a basis for determining the expenditure limitation, coupled with an adequate rainy day fund, is not really a weakness of the legislation. He further stated that the primary question is when the transition from cash accounting to GAAP accounting is to take place, particularly in relation to standing appropriations. Mr. Snell agreed, stating that the Legislature has to deal with standing appropriations and additional spending before dealing with an expenditure limitation. Mr. Snell informed the Subcommittee that the only transition method to GAAP with which he is familiar is the earmarking of funds from a temporary tax allowing the state to raise the lump sum it needs to retire the deficit and create a cash reserve. The creation of a cash reserve would allow the state to avoid such practices as short-term borrowing. Co-chairperson Varn agreed with Senator Lind that short-term borrowing is perhaps not a practice that should be eliminated as long as the state is making a profitable return on its investments; but short-term borrowing should not be done to bolster cash flow. In conclusion, Mr. Snell stated that, because GAAP requires the establishment of cash reserves, it simplifies cash management problems on a long-term basis.

Mr. Snell suggested that the Subcommittee retain a private accounting firm to study the state's cash management practices. He stated that it would be more effective to look at the cash management system as a whole with a view toward liberalizing restrictions on investments made by the Treasurer of State. Mr. Snell further stated that states' cash management practices tend to be fragmented and governed by outmoded rules and are nearly impossible to amend effectively on a piecemeal basis. Senator Lind and Representative Halvorson both observed that perhaps this is a study which could be requested by the task force on spending limitations of the Governor's Committee on Government Spending Reform and could be conducted by the accounting firm already retained by that Committee.

Mr. Larry Thornton of the Treasurer of State's Office informed the Subcommittee that he does not think the Governor's Committee on Government Spending Reform Task Force is focusing on the day-to-day management of the state's cash flow, although it is studying the collections system. He stated that he would have the Treasurer of State present the idea to the Task Force. In response to Co-chairperson Varn's questions about electronic transfer of funds and revenue collection, Mr. Thornton stated that the state is currently collecting about \$900 million by electronic transfer, 35 to 40 percent of which is income tax collections. Mr. Thornton informed the Subcommittee that the state collects roughly \$7 billion in total revenue, including students' tuition.

#### LUNCHEON RECESS

The Subcommittee adjourned for luncheon recess at 11:15 a.m. and reconvened at 12:45 p.m.

#### SUBCOMMITTEE DISCUSSION, CONT'D

Representative Halvorson stated that the Subcommittee's goal should not be to devise a limitation which would result in the creation of a huge cash reserve. Rather, he added, the state needs funds to conduct its daily business; to cover the "peaks and valleys". He also pointed out that he hopes to create the cash reserves without a temporary tax increase. He reminded the Subcommittee that whatever is adopted must have credibility in the eyes of the public. Representative Halvorson further stated that the Subcommittee should first consider whether the expenditure limitations should be extended to local government expenditures. Mr. Snell also stressed the importance of extending spending limitations to local governments in order to make state expenditure limitations more effective. If this is not done, he concluded, there will be, in most cases, a shift of expenditures from the state to the local governments through unfunded mandates.

In response to Representative Halvorson's questions on property tax, Mr. Snell stated that, at the state and local level, the percentage of revenue derived from sales, personal income, and property tax should be roughly proportional, with each of these taxes comprising 25 percent to 30 percent of total collections.

Co-chairperson Varn stated that at the next meeting, the Subcommittee will consider, among other things, cash flow, GAAP, transition time periods, the Johnson plan, and the five effectiveness factors of expenditure limitations previously cited by Mr. Snell. The Subcommittee agreed to hold its next meeting on Tuesday, November 12, at 10:00 a.m. at the State Capitol in Des Moines.

#### ADJOURNMENT

The Subcommittee adjourned at 1:52 p.m.

Respectfully submitted,

SUSAN E. CROWLEY  
Legal Counsel

2669IC

## MINUTES

### LEGISLATIVE BUDGETING SUBCOMMITTEE OF THE STATE BUDGET AND BUDGETING PRACTICES STUDY COMMITTEE

October 25, 1991

#### PRELIMINARY BUSINESS

The second meeting of the Legislative Budgeting Subcommittee of the State Budget and Budgeting Practices Study Committee was called to order by its Co-chairperson, Representative Bill Bernau, at 10:13 a.m., Friday, October 25, 1991, in Committee Room 22, State House, Des Moines, Iowa. Members present in addition to Co-chairperson Bernau were:

Senator Leonard Boswell, Co-chairperson  
Senator Derryl McLaren  
Representative Roger Halvorson  
Representative Charles Poncy

Senator Boswell moved that the minutes of the September 30 meeting be approved as submitted. The motion received unanimous support.

#### MR. JON NEIDERBACH, LEGISLATIVE FISCAL BUREAU

Co-chairperson Bernau recognized Mr. Jon Neiderbach, Legislative Analyst, Legislative Fiscal Bureau, for a presentation concerning the impact of changing the state fiscal year to match the federal fiscal year. Mr. Neiderbach distributed a memorandum concerning this topic, which is on file with the Legislative Service Bureau. The major points covered by Mr. Neiderbach include the following:

1. The federal fiscal year was changed from July 1 to October 1 in 1977. The change was intended to provide Congress with sufficient time to consider the budget prior to the start of the fiscal year.
2. The federal fiscal year change was accomplished through the use of a three-month transition quarter rather than extending the fiscal year from 12 months to 15 months.
3. The Iowa Code requires the state fiscal year to commence on July 1. This difference between the state and federal fiscal year sometimes causes problems with projecting federal financial involvement and with maintaining compliance with federal regulations. In addition, July 1 leaves a very short period of time between enactment of a

new requirement in April or May of a legislative session and the date of its implementation if the requirement is to take effect on July 1.

4. Discussions with Department of Revenue and Finance, Treasurer of State, Department of Management, and Legislative Fiscal Bureau staff indicate that changing the fiscal year would not create a savings in the budget. However, it was indicated that the change could create a one-time, one-year windfall. This one-time, one-year windfall may be offset by administrative costs required for computerization and other needs to make the change.
5. Two states currently use the federal fiscal year: Alabama and Michigan. The states of New York and Texas operate with a fiscal year other than July 1, but also use a different fiscal year than that employed by the federal government.
6. Concern has been expressed about legal requirements of the Tax and Revenue Anticipation Notes (TRANs). These concerns, involving the length of the fiscal year, would suggest that if a change in fiscal year is implemented, it would be advisable to use a three-month transition period between the old and new fiscal years rather than employing a 15-month fiscal year for that transition.

Co-chairperson Boswell asked whether there is an estimate of the costs required for transition, to which Mr. Neiderbach replied in the negative. Representative Halvorson recalled that when the change to the current fiscal year was made, there was much turmoil within state government in general and tax collection processes concerning that change, and noted that a change in fiscal year for local governments would also be required.

Extensive discussion followed Mr. Neiderbach's comment that a change in the fiscal year could necessitate a change in the time period used for the legislative session. Representative Halvorson suggested that perhaps a January 1 fiscal year would be more appropriate. In response to a question from Co-chairperson Bernau, Mr. Neiderbach indicated that a change in Chapter 17A, providing for agency rulemaking, may also be required if the current fiscal year starting date is revised.

Co-chairperson Bernau asked Mr. Neiderbach to comment about advantages and disadvantages of using a biennial budgeting process with a changed fiscal year. Mr. Neiderbach noted that an advantage would be in simplifying the interaction with the federal budget process, but noted that in his experience with the Department of Human Services biennial budget indicates that the projections provided for the second year are generally not supported by extensive objective information.



PRESENTATION BY DR. HUGH WINEBRENNER, DEAN OF COLLEGE OF  
BUSINESS AND PUBLIC ADMINISTRATION, DRAKE UNIVERSITY

Co-chairperson Bernau recognized Dr. Hugh Winebrenner, Dean of the College of Business and Public Administration, Drake University. Dr. Winebrenner distributed an outline of his presentation concerning incremental versus strategic decision-making in Iowa state government, a copy of which is filed with the Legislative Service Bureau.

Dr. Winebrenner described the components of a rational-comprehensive model of planning which he said includes the following elements: clarification of goals, objectives, strategies, outcomes of particular alternatives, and a rational choice among these alternatives. He discussed a number of barriers to rational-comprehensive planning in decision making. He noted that due to these barriers, many times decision makers use an incremental process of decision making in which the past year's fiscal experience is increased or decreased rather than considered in a fresh manner. He suggested that looking for short term cuts in the budget does not address the task of prioritizing how the state's fiscal resources should be used.

Dr. Winebrenner noted that the following four items consume the major share of state spending: education, social welfare, roads and highways, and size and number of governments. He suggested that rational decision making would involve questions concerning who benefits from programs, who pays, and who is entitled to public subsidy from the programs.

In response to Senator Boswell's discussion of options available to policy makers, Dr. Winebrenner suggested that consensus on the need to review state government is needed, that an agreement to work with the executive branch in solving problems and establishing priorities is required, and that establishment of a process to look over government in total and make decisions about these resources is needed.

Dr. Winebrenner agreed with Senator McLaren's assertion that oftentimes the correct solutions are not chosen because the correct questions have never been raised. Dr. Winebrenner agreed with Representative Halvorson and Senator McLaren, that using a "sunset" process to regularly consider the validity of programs can be a valuable means of focusing attention on programs. However, he cautioned that the sunset process does not address the basic issue of looking at all programs to determine the relative priority of programs compared to one another. Representative Halvorson noted that the General Assembly cannot review programs all at once. Dr. Winebrenner agreed and said programs should not be looked at every year but need to see if the program is within the control concepts of the state.

Representative Poncy commented that each program operated by government develops a constituency among the public and related several of his experiences in dealing with proposals which involve programs with a large number of constituents.

Co-chairperson Bernau raised the issue of looking at large areas of the budget on a regular basis and suggested that a six-to-eight-year process of providing a periodic, intensive look at a particular area would be beneficial. Dr. Winebrenner noted that barriers to a long-term process include limited lengths of elected officials' terms, regular elections, and philosophical changes over a period of years. He noted that the larger the package of changes being considered, the more difficult it is to accomplish change and suggested that an imminent crisis can be an effective tool to encourage decision makers to work together to accomplish change. He noted that across the board cuts or increases are not a beneficial policy in general for the state because no incentive for efficiency is provided to government agencies.

Senator McLaren asked Dr. Winebrenner to comment on the concept of a "rotational zero base budget", in which a schedule is developed to require a zero base budget for particular units of state government on a regular basis, for example, every six years designated agencies would be reviewed. Dr. Winebrenner indicated that there is extensive writing on this topic and that the success of zero base budgeting is mixed. He commented that in general the present 75 percent base budgeting has not worked well in Iowa, although it is good in principle. He stated that a biennial process strengthens the position of the governor and weakens the position of the general assembly in the budget process.

Senator McLaren invited Dr. Winebrenner to make suggestions as to how long-range planning can be improved by means other than a biennial budget process. Dr. Winebrenner summarized his response by stating that in planning, the most important step is to develop priorities, and then, if financial or other problems arise, eliminate those items which are of the lowest priority. He noted that the first step in planning is establishing goals which are a general outline of what ought to be accomplished. Objectives chosen to optimize these goals and the associated strategies change frequently according to Dr. Winebrenner.

MR. DWAYNE FERGUSON, PRINCIPAL LEGISLATIVE ANALYST, LEGISLATIVE FISCAL BUREAU

Co-chairperson Bernau recognized Mr. Dwayne Ferguson, Principal Legislative Analyst, Legislative Fiscal Bureau, for comments concerning the use of conference committees relating to budget bills by state legislatures. Mr. Ferguson distributed a memorandum which included a table prepared by the National Conference on State Legislatures (NCSL), a copy of which is filed with the Legislative Service Bureau. Mr. Ferguson made the following general comments:

13 states rarely or never go to conference committee for appropriations bills, the remainder are split almost equally between states that limit the conference committee to the disagreements between the House and Senate and those who allow the conference committee to change any and all portions, conference committees are most frequently made up of three senators and three representatives, and about two-thirds of the states' conference committee members are also on an appropriations committee.

Senator Boswell asked for the number of conference committees that go to a "free" conference committee, to which Mr. Ferguson replied that this information had not been collected. Representative Halvorson directed attention to the table's description of the conference committee procedure in Kentucky, in which preconference committee's deliberations are limited to either acceptance by the originating chamber of the other chamber's amendment or the other chamber receding from its amendment. If this conference committee is unable to reach agreement, then a "free conference" committee is established in which the committee can add, delete, or otherwise change the proposed amendment but cannot propose a new appropriation or an appropriation greater than the level set by either chamber. Representative Halvorson suggested that this approach may be beneficial for the Iowa General Assembly to consider adopting. He noted that in his early days as a legislator, conference committees were not used as often and expressed the opinion that during the last 10 years this process has been abused. He commented that in Iowa, conference committees often include in a report new and different language and different subject matters than were in the original bill and amendments to that bill. Representative Poncy and Co-chairperson Boswell responded that Representative Halvorson's concerns had received lengthy debate when joint rules were considered by the House and the Senate at the beginning of the 1991 Session.

PRESENTATION BY MR. BOB SNYDER AND MR. LEROY MCGARITY,  
LEGISLATIVE ANALYSTS, LEGISLATIVE FISCAL BUREAU

Co-chairperson Bernau recognized Mr. Bob Snyder and Mr. Leroy McGarity, Legislative Analysts, Legislative Fiscal Bureau, for a presentation concerning the Program Performance-based Budgeting System (PPBS) and zero base budgeting. Mr. Snyder and Mr. McGarity distributed written material concerning these subjects which are filed with the Legislative Service Bureau. Mr. Snyder began the presentation by defining the basic premise of PPBS as to perform budgeting on a departmental basis, but said that in this system, each department divides its budget into functions or services known as programs rather than dividing its budget by budget units. Mr. Snyder noted there are several reasons for dividing budgets into program units, including the following: emphasizing the services provided rather than volume of dollars expended the previous year, improving management capabilities and leadership, delegating authority, dividing operations into more

manageable units called programs, and providing follow-up responsibility by decision makers.

He noted that in the PPBS, the first step is to identify programs, followed by development of performance objectives for the programs, and finally, development of specific performance indicators which can be tracked for analysis purposes. Mr. Snyder described the pilot project being operated under the supervision of the Joint Health and Human Rights Appropriation Subcommittee involving the Family and Community Division of the Iowa Department of Public Health. He stated that the following four performance indicators are used for this pilot program: demand, work load, productivity, and effectiveness. Mr. Snyder also stated that the following caveat should be considered regarding PPBS: this system focuses on measurable items and not all aspects of a program are measurable; not all data needed for evaluation is readily available; development of the performance objectives and indicators is a negotiated process; and the system should be used for internal comparison and not used to compare governmental agencies.

Mr. McGarity defined zero base budgeting as a process in which each department's base budget is zero at the beginning of each fiscal year rather than beginning with a percentage of the previous year's funding as is currently the case in Iowa. He stated the zero base budget request consists of individual decision packages and the estimated expenditure requirements are prioritized by program. Other aspects of the process, he explained, are that the estimate of expenditures must be accompanied with performance measures for evaluating the program, general fund and federal funds reliance is explained in greater detail than with the current process, and FTE positions assigned to various programs are more readily identified. He said that criticisms of a zero base budgeting process include the following: a large increase in volume of paperwork which can be difficult to manage, more focus up on counting services and transactions than upon actual evaluation, and tracking of expenditures can be more time consuming and confusing than is currently done due to salary allocations.

Co-chairperson Bernau asked for comments as to whether either of these two methods would improve the state's long-range planning as suggested by Dr. Winebrenner. Mr. Snyder expressed the belief that the PPBS is very compatible and Mr. McGarity agreed. In response to Co-chairperson Bernau's comment as to whether either program can be done periodically rather than annually, Mr. McGarity noted that with a zero base approach, a periodic comparison would involve the use of historical data for comparison purposes. Mr. Snyder stated his belief that PPBS is more conducive to periodic review and said he conceptualizes the zero base approach as micromanagement and the PPBS as macromanagement.

Co-chairperson Bernau asked about estimates of time involved with use of either of these methods. Mr. Snyder commented that either method would involve an increase of staff time for both the legislative and the executive branch. Mr.

Dennis Prouty, Director of the Legislative Fiscal Bureau, noted that, in his discussion with his counterparts in other states, those states which had tried a pure zero based approach have left this method behind. He said that more staff would be necessary in order to summarize and provide the depth of analysis that is required by use of either of the two methods. Senator McLaren expressed his experience with state budgets noting his frustration in trying to determine the amount of federal funding available with state programs.

Representative Halvorson discussed the three major groups involved in the budget process which he identified as follows: the initial budget developed by a department, the Department of Management analysis which is based on 75 percent of previous year's expenditure base, and the Legislative Fiscal Bureau analysis prepared for the General Assembly.

PROFESSOR MEL ARSLANDER, COLLEGE OF BUSINESS AND PUBLIC  
ADMINISTRATION, DRAKE UNIVERSITY

Co-chairperson Bernau recognized Professor Mel Arslander, College of Business and Public Administration, Drake University for a presentation concerning techniques to improve legislative oversight through the budget process. Mr. Arslander made general comments concerning the subject matter that had been covered through the morning meeting. He noted there has been a general trend both at the federal level and among the states to increase legislative oversight of the executive branch and stated this has involved increasing the number of staff who provide analysis.

Dr. Arslander commented that, in general, oversight is a low-visibility activity that does not occupy the attention of administrative agencies or legislators for a very long period of time. He opined that that is the reason much oversight is done through special investigative committees and operational committees. He noted that oversight is different than evaluation in that oversight is intended to check compliance and ensure that a program is being performed as intended. He proposed that legislative staff in the Legislative Fiscal Bureau, Legislative Service Bureau, or partisan staffs, be reallocated to provide more oversight. He also suggested that there should be more information sharing between the Governor and the General Assembly so that both consider the budget equally and simultaneously.

Co-chairperson Bernau asked Professor Arslander to comment as to whether the General Assembly should perform more oversight. Professor Arslander commented that oversight is necessary to determine the extent priorities are consistent with limited resources. He expressed the opinion that in some problem areas, the focus should be on cultural change rather than improving services for a specific desired result.

Co-chairperson Bernau asked for Professor Arslander's comments on zero base budgeting and performance budgeting. Professor Arslander noted that zero base budgeting involves the use of so much information that it is difficult to elicit the value of the information from the quantity provided. He commented that performance budgeting focuses on efficiency and does not consider whether a program is needed or not but instead determines whether it is being done in the best way.

### LUNCHEON RECESS

Co-chairperson Bernau recessed the Committee at 12:19 and reconvened at 1:44 p.m.

### NEXT MEETING DATE

The Committee agreed that the next meeting would be held on Friday, November 8 at the State Capitol Building.

### ROUNDTABLE DISCUSSION

Co-chairperson Bernau reviewed the charge to the Subcommittee. He noted that there is an abundance of information available to all appropriations subcommittee members but expressed dissatisfaction as to how the information is used by the subcommittees. He related an example in which the Department of Human Services maintains long-term plans for some programs and reports these plans to the subcommittee, but the subcommittee is not asked to accept, reject, or modify the proposed plans. He noted that Representative Jochum has expressed his opinion that holding meetings of the appropriations subcommittees prior to the session has been a helpful process.

Representative Halvorson noted that members of his caucus have expressed their frustration with the appropriations process and said that some have indicated that if meetings held prior to the session do not become more productive, they will be reluctant to participate. He proposed the consideration of rules changes needed in order to make the process work better.

Senator Boswell stated that as Co-chairperson of the Joint Appropriations Subcommittee on Economic Development, he had a far different experience. It was his impression that members were interested and involved and the time was needed in order to focus upon the information provided by the departments without the distractions present during the Legislative Session. Senator Boswell noted that last year, when the presession meetings were authorized, subcommittees had to meet

during the same three-day period but could decide whether to meet up to three days duration.

Representative Halvorson raised concerns regarding submission of the budget for the courts, noting that the Governor is statutorily precluded from making or suggesting revisions in that budget. Senator Boswell stated his belief that this is a separation of powers issue. Representative Halvorson said that it creates a credibility problem as the General Assembly is able to revise the court's budget then claim that it has underspent the budget amount proposed by the Governor. He noted that in the state of New York the courts have sued the governor and the legislature because of an allegation that the governor revised the budget prior to its submission to the general assembly. Senator Boswell asked staff and was informed that the submission of the court's budget had been done in the present manner since government reorganization. Staff were asked to determine the status of the submission of the court's budget in other states.

Representative Poncy made the following suggestions:

1. More time should be provided to work on the budget before and during the Session. He later commented that up to four and one-half days prior to Session would be an appropriate period of time.
2. Major issues should be decided in a bipartisan manner.
3. He expressed the belief that conference committee subject matter should be limited to the issues of disagreement.
4. Staff should be utilized on the budget to a greater degree.
5. Sharing and communication between the Governor and the General Assembly should be increased.
6. Legislators should be more responsible to the state and less to individual constituents. In the 1991 Session, he said, the appropriations process was short-circuited and that for some subcommittees the minority were left out of the process.

Senator Boswell noted that when he and Representative Poncy were co-chairing the Joint Economic Development Appropriations Subcommittee, there was extensive involvement from both houses' chairs, vice-chairs, and ranking members. He noted that the same involvement took place in the Senate during the 1991 Session.



Senator McLaren made the following comments:

1. Government responds in crises and he was frustrated during the 1991 Session by not being able to directly affect the budget especially in conference committees.
2. The current long-range planning discussion is too abstract.
3. Consideration should be given to returning to a biennial budgeting process as a means to evaluate how one year's commitment affects commitments in future years.
4. The zero base budgeting and the program performance budgeting systems should be blended and a hybrid be considered for use.
5. He sees advantages of requiring advance work by subcommittees in only the first year of a two-year session in order to cover basic policy concerns.

Senator Boswell commented that he will make a renewed effort to keep chairs and members informed if a major portion of the budget enters the conference committee process during the 1992 Session.

Senator Boswell expressed his interest in consideration of two separate sessions during the year, with one providing a focus on budget issues. He commented that this approach may have an adverse effect on employment and he assumes that others may have a similar situation. He expressed his willingness to consider a revision in conference committee membership and approaches including the Kentucky process described earlier in the meeting. He commented that he, as well as other legislators currently work more than 40 hours per week on behalf of state business and opined that this fact is not well known by the general public.

Co-chairperson Bernau expressed his interest in considering biennial budgeting as part of a move towards increasing long-range planning by the General Assembly. He distributed a written piece to the Committee, which he had earlier submitted to one of the Governor's task forces, which describes his interest in long-range planning and provides a proposal. This written material is filed with the Legislative Service Bureau.

Senator McLaren reiterated his support for biennial budgeting, stating that a two-year budget period would increase accountability. Representative Halvorson expressed concern about intentional underfunding of certain entitlement programs and indicated that a biennial process would help to reduce this tendency. Representative Poncy noted that even if a budget has a two-year period, it will still require review on an annual basis. Senator McLaren suggested that a longer term review can be done in a voluntary manner, on a 5-6-year rotational basis. Representative Poncy suggested that that time period be used for consideration of



portions of the budget with large expenditures. Senator McLaren noted that long-range planning is of importance but would only be successful so long as the public perceives the plan to be correct.

Representative Halvorson suggested further consideration of returning to the calendar year as the fiscal year. Co-chairperson Bernau noted that more information would be provided to the Committee concerning the use of budget bill conference committees in the Kentucky legislature.

Co-chairperson Bernau emphasized the budget process can be improved if it receives more focus with fewer distractions. He recognized Representative Rod Halvorson. Representative Rod Halvorson suggested that a two week period should be set aside from the legislative funnel and consideration of all other issues should be deferred during that period while all the General Assembly focuses on the budget. Co-chairperson Bernau commented that this approach could be used by reconvening appropriations subcommittees as the latest revenue information becomes available. Representative Roger Halvorson noted that a change in the fiscal year would be helpful as budget decisions change as the latest revenue forecast becomes available.

Representative Roger Halvorson expressed the frustration that he has heard from other members that the morning appropriations subcommittee time could be used to better advantage. He noted that this time period is subject to frequent interruptions and changes of schedule. Senator McLaren commented that the Subcommittee had talked extensively about long-range planning and expressed his support. He said he would specifically like to know more about the actual makeup of a department's budget, especially the mix of federal and state dollars and how it is distributed to the public.

#### ADJOURNMENT

Co-chairperson Bernau stated that the Committee had had a beneficial wide-ranging discussion and noted that at the final meeting of the Subcommittee scheduled for November 8, final recommendations would be developed for presentation to the full Committee. There being no further business to come before the Subcommittee, the meeting was adjourned at 3:14 p.m.

Respectfully submitted,

JOHN POLLAK  
Committee Services Administrator

2670ic

## INCENTIVE AND PERFORMANCE BASED BUDGETING PROPOSAL FOR THE STATE OF IOWA

### Background

The State of Iowa operates on an annual budget cycle. Each year departments are required to submit budget proposals that do not exceed 75 percent of their previous years' budgets. Departments are then permitted to build on their baseline budgets by proposing additions through the preparation and submittal of incremental decision packages which must provide justification for budget requests above the 75 percent baselines.

This current budget process does not provide adequate incentives for departments to economize. Also, the process does not provide for regular review of programs and activities, nor does it incorporate performance based measures of program effectiveness or work efficiency. Third, the process does not include any requirement for the continuous improvement of methods of service provision or work performance. Fourth, annual budgeting works against investment in productivity enhancing technology. Fifth, current budget oversight relies extensively on the day-to-day review of department expenditure requests.

### Objectives of Budget Process Revision Proposal

This proposal is intended to modify the State of Iowa's budget system in a manner that will promote increased economy in the use of limited financial resources and provide the incentive for departmental managers to initiate a philosophy of continuous improvement in the provision of services and the administration of programs. Specific objectives of this proposal include:

- (1) Establishment of an incentive based compensation plan for top level managers, and line employees.
- (2) Substitution of a performance measure based accountability system for direct Department of Management, Executive Council, and Department of Personnel oversight of department expenditures and staffing decisions.
- (3) Adoption of a continuous quality and productivity improvement philosophy by all departments of state government.
- (4) Creation of a means for departments to accumulate reserves for the purpose of investing in productivity enhancing technology.

decide whether to employ a few high pay grade, experienced staff or many lower paid, less experienced staff.

- (7) Reduce the number of job classes, but increase the number of steps in each class. Establish clearly defined education, knowledge, and skill standards which must be achieved to obtain a promotion and which provide employees the incentive to upgrade their skills through advanced education and lateral reassignments.
- (8) Establish a system whereby employees in non-management positions can earn points toward either early retirement or promotion by accepting lateral reassignments, obtaining advanced training or through superior performance.
- (9) Give managers more discretion to demote, as well as promote, employees based on performance and willingness to take on new assignments and pursue advanced training.
- (10) Require all programs to be rejustified on a periodic basis, such as on a four year cycle. In rejustification submittals require the administering department to specify the client group for the program, establish the needs of the client group for continuation of the program, and document program performance for each year of the program's existence, as well as staffing levels.
- (11) Permit departments to establish reserve funds for investment in productivity enhancing technology and employee training programs.
- (12) Convert from an annual to a biennial budget in order to reduce staff time required to prepare and review budget submittals.
- (13) Establish that the December Revenue Estimating Conference shall provide the basis for legislative appropriations during the subsequent legislative session unless the March estimate indicates an anticipated decrease in revenues. Any revenues received by the state in excess of the amount projected by the December Revenue Estimating Conference shall be dedicated to a budget reserve account, commonly referred to as a rainy day fund.

### Analysis of Proposal

#### Short-term Cost Reduction Features

Like in FY92, the state is expected to experience significant financial stress during FY93. In order to minimize additional forced staff reductions, this proposal is intended to provide department directors with several

incentives to make additional efforts to economize during the current fiscal year. These incentives include: the ability to retain 50 percent of FY92 reversions for use in future years, the ability to count funded vacancies against possible future forced staff reductions, and the ability to set aside funds in a reserve account for productivity enhancing investment and training.

To estimate the potential cost savings these incentives can be expected to yield, the following questions need to be answered. How many funded vacancies can be expected to be left unfilled? What is the average cost savings that would be associated with each unfilled position? By how much can departments be expected to reduce other operating expenses? By how much can departments reduce other discretionary spending?

During FY1991 departments reverted \$12.6 million. Of this amount about half represented savings from operations. Given the current tight oversight of department budgets not much increase in reversions can be expected during FY92 or FY93. However, a slight increase in reversions of approximately 0.5 percent, or \$4.5 million, could possibly be generated if departments were allowed to recover up to half of FY92 and FY93 reversions in future years for special projects.

#### Long-term Cost Reduction Features

The major long-term cost reducing feature of this proposal is the switch from an incremental budgeting system to a performance based system. Other jurisdictions that have implemented such budget systems have realized operating cost savings in the neighborhood of 15 percent after five years. If Iowa could achieve savings of a similar magnitude this would represent a real reduction in annual operating costs of from \$80 to \$100 million dollars after five years.

Another feature of this proposal involves switching from an annual to a biennial budget cycle. Direct savings from this change would result mainly from potential reductions in administrative department and legislative budgeting personnel. On the other hand, indirect benefits would also accrue from the freeing up of resources to accelerate the implementation of a performance based budgeting system.

## **LEGISLATIVE FISCAL COMMITTEE**

**1991 Interim**

**Meeting: October 15, 1991**

**ISSUE:** Potential for changing the state fiscal year to match federal fiscal year.

### **BACKGROUND**

In 1977 Congress changed the start of the federal fiscal year from July to October. The change was made when the Congressional budget process was implemented, and was intended to create a budget timetable which allows Congress enough time to consider and approve a budget prior to the start of the fiscal year. The change was not done to achieve any paper budget "savings". The federal government used a 3-month transition quarter instead of a 15 month fiscal year, to implement the change.

Section 8.36 of the Code of Iowa statutorily sets July as the start of the state fiscal year. The difference between the state and federal fiscal years results in the first quarter of a state fiscal year always falling into a different fiscal year than do the other 3 quarters. This causes problems with projecting federal grants, match rates, and costs of complying with federal requirements. In addition, state departments have 2 months after the end of the legislative session to implement new programs, and less after legislation is actually signed into law. This is often not enough time to plan implementation or promulgate necessary administrative rules. Changing the state fiscal year to match that of the federal fiscal year could alleviate these problems.

Changing the fiscal year is not expected to produce any revenues for the state.

Two states -- Michigan and Alabama -- have fiscal years which start in October.

- Alabama has started its fiscal year in October for many years, and reports widespread acceptance of their "non-standard" timetable. Recently there has been some discussion about changing the fiscal year, but their current schedule has engendered strong support, including the Governor's office. The reasons for this opposition include concerns that changing the fiscal year would entail substantial accounting systems conversion costs, as well as a loss of comparability for budget development. There is also concern that changing the fiscal year would make it more difficult to budget federal funds.
- Michigan changed to a October/September fiscal year in the early 80's, primarily due to major fiscal problems. Their intention was to use a 15-month transition year to balance their budget, with a variety of major

revenue sources received between July 1 and September 30 into the then current fiscal year counted in a "5th quarter". The plan at the time the fiscal year was changed was to revert to the July start date once the economy improved. However, fiscal pressures have made this difficult to do. There is strong acceptance of the October start date. There is now a push to require local governments to change their fiscal year.

#### PROBLEMS/QUESTIONS TO BE ADDRESSED

- Should Iowa change its fiscal year to match the federal fiscal year? Other states have found that changing the fiscal year entails major conversion expenses, such as rewriting computer software. Do the potential improvements in budgeting federal funds outweigh the transition costs?
- If the state fiscal year is changed, how should the transition be handled? Should there be a one-time long (15 month) fiscal year? Should there be a 3 month transition quarter? How can we ensure that unanticipated or undesired expenditures do not "sneak through" during the non-comparable transition period? Who will supervise the transition efforts?
- If the state fiscal year is changed, should the timing of the legislative session also be changed to allow consideration of relevant information closer to the start of the fiscal year (October)? If the timing of the session is not changed, what will be the impact of adopting a budget which covers a period that starts 3 months later than under current practice?
- Should Iowa require local governments (such as cities, counties and school boards) to also change their fiscal year?

#### AFFECTED AGENCIES

All agencies of state government would be affected. All divisions of local government could be affected, depending upon how the change in fiscal year is implemented.

### CODE AUTHORITY

Section 8.36, Code of Iowa.

### BUDGET IMPACT - \$'s (General Fund)

There would be significant transition costs. These have not yet been determined and will vary depending upon how the transition is handled. Federal IRS regulations restrict the state's ability to issue TRANS notes for a period longer than 13 months. Use of a long (15 month) fiscal year would therefore adversely affect our ability to use TRANS notes for cash flow purposes.

### FISCAL COMMITTEE ACTION REQUIRED

This item is presented for information only. No action by the Committee is required.

## PROGRAM PERFORMANCE BASED BUDGETING

October 25, 1991

Currently the State of Iowa is involved in 75% based budgeting for budget units within total departments and authorized agencies. The basic premise of program performance based budgeting (PPBB) is to continue to budget by department, but each department changes from budgeting by budget units to dividing its budget into functions or services. These functions or services are known as "programs". There are several reasons for dividing budget units into program budgets.

1. Program budgets emphasize the services the State provides, instead of basing a budget upon what was received the previous fiscal year. Budget justifications and ultimately decisions are based upon citizen needs, the State's response to their needs, and the resources the State has available to meet those needs.
2. Program budgets have the capability of improving the State's management capabilities. Under 75% based budgeting, the emphasis is on reviewing line item expenditures through budget units. If funds were expended within the limits of the budgeted line items or within the fiscal bounds of the budget unit, the department was a good manager. Under PPBB the emphasis is on managing services. The program manager has flexibility to control expenditures in order to produce the results expected of programs.
3. Program budgets have the potential of improving leadership, delegating authority, dividing operations into more manageable units called "programs", and providing follow-up responsibility by the decision-makers. When the budget process is "results oriented", the budget presentation contains specific plans for output, efficiency, and effectiveness. These plans, which the Health and Human Rights Appropriations Subcommittee have labeled "performance objectives" and "performance indicators", are the guidelines for all involved (from the providers of service, through the program's bureaucracy, to the decision-makers) to use for determining the "performance" of the program. The following year's budget is then based upon how the performance indicators indicate the program is doing in obtaining the performance objectives.

In PPBB, the first step is to identify programs. Once the programs have been identified, performance objectives are determined. Finally, specific performance indicators are developed, which can be tracked for analysis.

For the Health and Human Rights Appropriations Subcommittee's pilot project of the Family and Community Division of the Department of Public Health, the performance indicators are statistical measures of actual performance. The reports are submitted to the Legislative Fiscal Bureau on a quarterly basis. As can be seen in the Attachment I, the performance indicators report on four characteristics of a program. These characteristics include:

- ♦ Demand - who needs the program, how much is needed?
- ♦ Workload - what does the program produce?
- ♦ Productivity - what is the cost of one unit of workload, how efficient is the program?
- ♦ Effectiveness - what is the quality, impact, or responsiveness of the program?



The following is a more detailed explanation of the four characteristics.

Demand:

- ✓ Is this program necessary?
- ✓ How much service is required or requested?
- ✓ Demand is the external factor that demonstrates the "need" for the program.
- ✓ Demand data enables decision-makers to adjust services and costs to respond to changes in the direction and/or magnitude of the demand for the service.

Workload:

- ✓ How much service is being provided?
- ✓ How do service outputs (workload) compare to service needs (demand)?
- ✓ Facts about workload enable decision-makers to relate the budget to personnel outputs and to relate outputs to demand.
- ✓ Workload data is the basis for unit cost or productivity indicators.

Productivity:

- ✓ Is the program being run efficiently?
- ✓ What is the average cost of one unit of service?
- ✓ Unit cost (productivity) data enables the decision-makers to measure efficiency.
- ✓ Productivity measures can be used to quickly estimate the cost of adding more service or the savings to be realized for reductions in service.

Effectiveness:

- ✓ How well is the program doing?
- ✓ What is the impact and/or quality?
- ✓ Effectiveness data enables the decision-makers to see that quality does not suffer as productivity increases or that quality improves if productivity declines.

Finally, the following caveats are necessary when considering PPBB.

- ◆ Not everything is measurable.
- ◆ Not all data is readily available.
- ◆ When developing performance objectives and indicators, it is a process of negotiation between the decision-makers, the budget analysts, and the program personnel.
- ◆ PPBB should be an internal organization comparison only and not used to compare between governmental agencies.

Note: This model is designed after the current Scott County Program Performance Budgeting System.

DEPARTMENT OF PUBLIC HEALTH  
DIVISION OF FAMILY AND COMMUNITY HEALTH  
PPBB WORKSHEET

DIVISION OVERVIEW

The Division of Family and Community Health has the responsibility of coordinating federal, state, and local resources for the providing of public health services through local boards of health and other local agencies. The Division assists local boards of health in defining local health needs and in locating resources to meet those needs. The primary focus of the Division includes public health nursing, homemaker-home health aide, well elderly, maternal and child health, dental health, nutrition, disability, and genetic programs.

INTRODUCTION

The Health and Human Rights Appropriations Subcommittee, in conjuncture with the Department of Public Health (DPH) and the Legislative Fiscal Bureau (LFB), developed a series of objectives and measures (indicators) that reflect the different activities of the Division of Family and Community Health in the DPH. The data was reviewed by the Fiscal Bureau staff and comments are made where appropriate. Based upon the fact that the LFB has only 1 quarter of information, there is not enough data to effectively analyze the performance of the Division. The LFB staff will continue to track the measures quarterly.

ADMINISTRATION BUREAU

**BUREAU DESCRIPTION:** To administrate the Division of Family and Community Health.

**Performance Objectives:**

To provide administrative assistance to the staff of the Division of Family and Community Health.

To provide administrative assistance to the contracting agencies.

To maintain contacts with organizations outside the DPH.

To provide technical assistance to the local boards of health.

**Performance Indicators:**

	FY 1991				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
<b>DEMAND</b>					
1 Number of contracting agencies					
2 Number of Division staff					
3 Number of outside requests for information					
4 Number of local boards of health					
5 Number of medical consultations provided					

**WORKLOAD**

- 1 Number of outside contacts
- 2 Number of contacts with local

boards of health  
3 Number of medical consultations  
provided

#### PRODUCTIVITY

- 1 Administrative cost as a percent of  
the total Division budget
- 2 Cost per board of health contact
- 3 Cost per outside contract
- 4 Cost per medical consultation  
contact

#### EFFECTIVENESS

- 1 Number of valid complaints received  
about Division activities
- 2 Percent of medical consultation  
requests responded to
- 3 Percent of board of health requests  
responded to

Comments:

Regarding demand:

First Quarter -

Second Quarter -

Third Quarter -

Fourth Quarter -

Analysis -

Regarding workload:

First Quarter -

Second Quarter -

Third Quarter -

Fourth Quarter -

Analysis -

Regarding productivity:

First Quarter -

Second Quarter -

Third Quarter -

Fourth Quarter -

Analysis -

Regarding effectiveness:

First Quarter -

Second Quarter -

Third Quarter -

Fourth Quarter -

Analysis -

**Zero Base Budgeting**  
**October 25, 1991**

According to Section 8.23, Code of Iowa, the normal base budget for departments is 75%. However, a diagram and a brief explanation relating to zero base budgeting are provided below.

**Zero Base Budgeting**

FY 1992 Spending Level

(x) 0.0%

Base Budget for FY 1993

+

Decision Packages

=

**FY 1993 Request**

- ♦ Zero base budgeting simply means departments base budget reflects zero at the beginning of each fiscal year.
- ♦ Departments decision packages represent 100% of the total request.
- ♦ Departments must provide an explanation for each decision package.
- ♦ The estimate of expenditure requirements are prioritized by program.
- ♦ Estimate of expenditures must be accompanied with performance measures for evaluating the effectiveness of the programs.
- ♦ Emphasis on General Fund and federal funds are explained in more detail.
- ♦ FTE positions assigned to various programs can be identified.
- ♦ Concerns associated with zero base budgeting include: Paper volume can be difficult to manage, more focus on bean counting and less on evaluating programs, and tracking expenditures can be time consuming and confusing due to salary allocations. For example, 1 FTE position could be assigned to 2 programs operating under 2 different divisions within a Department.

BUREAU: Dental  
PROGRAM: All

1.00 .65 Fed.  
.35 State

6.25 5.90 Fed.  
.35 State

$$\begin{array}{r} \$439,060 \\ 197,993 \\ 67,546 \\ \hline \$704,599 \end{array}$$

APPROPRIATION SUMMARY

Personal Services

Travel

Supplies/Equipment

Contracts

TOTAL

FY91

\$242,280

15,525

28,250

418,544

\$704,599

March 4, 1991

ZERO-BASE BUDGET      FY91 BASE

BUREAU:              Dental  
PROGRAM:             Education/Prevention

FTE/POSITIONS

Public Health Dental Director	.80	.45 Fed. .35 State
Provides overall direction and supervision of staff involved in conducting programs and services delivered by the Bureau; also acts as dental consultant to the Department, other local state, and federal agencies on dental health issues.		
Secretary I	.40	Federal
Performs general secretarial duties related to the dental health education/prevention services program; assists with the fluoridation monitoring and surveillance program data review and computer entry.		
Clerk Typist III	1.00	Federal
Performs general clerical duties related to the dental health education and prevention services program.		
Public Health Dental Hygienist	3.00	Federal
Provides consultation and technical assistance to schools and various agencies to promote and integrate dental health education/prevention activities into their programs.		
TOTAL	5.20	4.85 Fed. .35 State

REVENUE SUMMARY	<u>FY91</u>
6412 - MCH Block	\$210,516
6401 - State	<u>22,993</u>
TOTAL	\$233,509

APPROPRIATION SUMMARY	
Personal Service	\$192,534
Travel	13,275
Supplies/Equipment	<u>27,700</u>
TOTAL	\$233,509

March 4, 1991



ZERO-BASE BUDGET    FY91 BASE

BUREAU:            Dental  
PROGRAM:           Fluoridation

FTE/POSITION

Public Health Dental Director	.20	Federal
Provides overall direction and supervision of staff involved in conducting programs and services delivered by the Bureau; also acts as dental consultant to the Department, other local state, and federal agencies on dental health issues.		
Secretary I	.35	Federal
Performs general secretarial duties related to the dental health education/prevention services program; assists with the fluoridation monitoring and surveillance program data review and computer entry.		
Environmental Engineer III	.50	Federal
Provides consultation and technical assistance to city officials, water plant operators, engineers related to the community water fluoridation program; provides consultation and technical assistance to operators, engineers, and contractors to swimming pools.		
TOTAL	1.05	Federal

REVENUE SUMMARY

6402 - Federal	<u>FY91</u> <u>\$67,546</u>
TOTAL	\$67,546

APPROPRIATIONS SUMMARY

Personal Service	\$49,747
Travel	2,250
Supplies/Equipment	550
Contracts	<u>15,000</u>
TOTAL	\$67,546

March 4, 1991

ZERO-BASE BUDGET    FY91 BASE

BUREAU:            Dental  
PROGRAM:        Reimbursement for Dental Care

FTE/POSITIONS

None

REVENUE SUMMARY

6412 - MCH Block  
6401 - State  
TOTAL

FY91 -  
\$228,544  
175,000  
\$403,544

APPROPRIATIONS SUMMARY  
Contracts

\$403,544

March 4, 1991

ZERO-BASE BUDGET FY91

BUREAU: Community Service  
PROGRAM: All

FTE/POSITIONS

PSE II	1.0	Federal
Directs work of unit to include work assignments, performance evaluation, hiring and interpreting policies and procedures.		
Program/Planning Admin. I	1.0	Federal
Directs work of unit staff to include work assignments, performance evaluations, hiring and interpreting policies and procedures.		
Training Officer II	1.0	Federal
Develop, plan, and implement Division-wide training for all program staff.		
PSE I	1.0	State
Provides consultation and technical assistance to Division and local staff in computer hardware and installation of software to improve efficiency and capabilities.		
Administrative Assistant II	2.0	Federal
Review for accuracy and analyze contracts, expenditure reports, billing instruments, and provide budget analysis to contract agencies and Bureau staff.		
Administrative Assistant I	2.0	1.50 State .50 Federal
Reviews budget expenditures, vouchers, claims and determine eligibility.		
Secretary I	2.25	1.25 Federal 1.0 State
Provides secretarial support by typing vouchers, correspondence, processing claims reviewing out-of-state travel, and/or planning training events.		
Clerk Typist III	3.0	2.0 Federal 1.0 State
Typing letters, reports, contracts, and budgets; processing vouchers for claims, mailing warrants, maintain files and computer records.		
Nurse Consultant	.90	State
Provides nursing consultation, as required by the code, in determining coverage for medical procedures; reviews claims and applications, determines eligibility, and interprets the administrative rules.		
TOTAL	14.15	8.75 Federal 5.4 State

## REVENUE SUMMARY

FY91

6921 - State/WEC	\$ 14,864
6212 - Federal/PHN	14,864
6742 - Federal/MCH Block	168,400
6502 - Federal/FP	1,687
6632 - Federal/WIC	75,480
3401 - State/HP	41,418
3711 - State/Renal	738,260
6412 - Federal/MCH Block	6,742
6622 - Federal/WIC	30,188
6211 - State/PHN	<u>43,274</u>
TOTAL	\$1,135,177

## APPROPRIATIONS SUMMARY

Personal Service	\$ 465,989
Travel	825
Supplies/Equipment	9,818
Reimbursed care	<u>658,545</u>
TOTAL	\$1,135,177

March 11, 1991

ZERO-BASE BUDGET FY91

BUREAU: Community Services

PROGRAM: Renal

FTE/POSITIONS

Program/Planning Admin. I	.10	Federal
Directs work of unit staff to include work assignments, performance evaluations, hiring and interpreting policies and procedures.		
Nurse Consultant	.90	State
Provides nursing consultation, as required by the code, in determining coverage for medical procedures; reviews claims and applications, determines eligibility, and interprets the administrative rules.		
Administrative Assistant I	.30	State
Reviews budget expenditures, vouchers, claims and determine eligibility.		
Secretary I	1.00	State
Provides secretarial support by typing vouchers, correspondence, processing claims reviewing out-of-state travel, and/or planning training events.		
Clerk Typist III	1.0	State
Typing letters, reports, contracts, and budgets; processing vouchers for claims, mailing warrants, maintain files and computer records.		
TOTAL	3.30	3.20 State .10 Federal

REVENUE SUMMARY

	FY91
6742 - Federal/MCH Block	\$ 4,465
3711 - State/Renal	714,670
6211 - State/PHN	<u>43,274</u>
TOTAL	\$762,409

APPROPRIATIONS SUMMARY

Personal Service	\$101,721
Travel	825
Supplies/Equipment	1,318
Reimbursed care	<u>658,545</u>
TOTAL	\$762,409

March 11, 1991

ZERO-BASE BUDGET      FY91

BUREAU:            Community Service

PROGRAM:           Community Support

FTE/POSITIONS

PSE II	1.0	Federal	Directs work of unit to include work assignments, performance evaluation, hiring and interpreting policies and procedures.
Program/Planning Admin. I	.90	Federal	Directs work of unit staff to include work assignments, performance evaluations, hiring and interpreting policies and procedures.
Training Officer II	1.0	Federal	Develop, plan, and implement Division-wide training for all program staff.
PSE I	1.0	State	Provides consultation and technical assistance to Division and local staff in computer hardware and installation of software to improve efficiency and capabilities.
Administrative Assistant II	2.0	Federal	Review for accuracy and analyze contracts, expenditure reports, billing instruments, and provide budget analysis to contract agencies and Bureau staff.
Administrative Assistant I	1.7	1.20 State .50 Federal	Reviews budget expenditures, vouchers, claims and determine eligibility.
Secretary I	1.25	Federal	Provides secretarial support by typing vouchers, correspondence, processing claims reviewing out-of-state travel, and/or planning training events.
Clerk Typist III	2.0	Federal	Typing letters, reports, contracts, and budgets; processing vouchers for claims, mailing warrants, maintain files and computer records.
TOTAL	10.85	2.20 State 8.65 Federal	

March 11, 1991

## REVENUE SUMMARY

FY91

6921 - State/Well Elderly	\$ 14,864
6212 - Federal/PHN	14,864
6742 - Federal/MCH Block	163,935
6502 - Federal/FP	1,687
6632 - Federal/WIC	75,480
3401 - State/HP	41,418
3711 - State/Renal	23,590
6412 - Federal/MCH Block	6,742
6622 - Federal/WIC	<u>30,188</u>
TOTAL	\$372,768

## APPROPRIATIONS SUMMARY

Personal Service	\$364,268
Supplies/Equipment	<u>8,500</u>
TOTAL	\$372,768

March 11, 1991

# **Bill Bernau**

---

## **STATE REPRESENTATIVE**

### **Long Term Planning Creating a Vision for Iowa's Future**

Many factors have contributed to the current budgetary problems facing Iowa...a slow down in our economy, new federal mandates, programs which have been shifted from the counties to the state, formula spending, standing appropriations, etc...

As we examine our current problem and search for solutions, we risk 'not seeing the forest for the trees.' While major decisions need to be made concerning taxation and spending, we must also look at our political process and how it has brought us to this juncture.

Both the Legislature and the Governor have promised cooperation as we look for answers. It is with this cooperative spirit in mind that I make these comments and suggestions.

One of the deficiencies that I see in government today is the unwillingness or inability of our political process to develop long-term goals and plans to reach those goals. While there are many visionaries involved in the process; the process does not lend itself to vision.

This deficiency may be caused by the fact that politicians are elected to relatively short terms (2 and 4 years). Or because Iowa operates with an annual budget -- which is driven by projected revenues and last year's expenditures.

Consider the costs associated with this deficiency...

The Fiber Optic Network rose to the top of Iowa's political priorities and was funded without knowing the out-year costs and benefits, or its relationship to other capital needs...

Department of Human Services' programs are passed and expanded without adding sufficient staff and financing to carry them out, nor understanding their future fiscal impact; increasing caseloads to the point where all suffer...

New standing appropriations become law without consideration for what we're doing to the pool of available funds...



Too often programs are implemented with a 'finger to the wind' mentality, only to be abandoned as public opinion shifts...

Goals are stated but never achieved...

Regardless of why this deficiency exists, I believe that given the opportunity our political process and the players involved can establish long-term goals and the plans to achieve them.

I propose that we take this opportunity to legislate a change in our process to mandate long-term planning. Working together the Legislature and the Governor should establish; and the Departments and Agencies should implement long-term plans that will set the roadmap for Iowa's future.

While I don't want to get bogged down in the specifics of how this process might work, I do feel it's necessary to give you a rough outline of my concept.

The plans would run for 8 years and would include goals, plans to achieve those goals and budgetary projections for each year. While the plans would be for 8 years, they would be written every 4 years immediately following the gubernatorial election so that we are always operating within the context of an 8 year plan.

Success in creating and implementing the plans would require the involvement and cooperation of the Governor, Legislature, departments, interest groups, media and the general public.

The benefits of these 8 years plans are many...

- the political process would have point where long-term goals are debated and established,
- annual budgets could be developed in the context of a long term plan, with consideration for where we've been and where we're going,
- new proposals and programs could be debated in the context of established priorities and plans,
- departments and agencies could operate with a set of long-term goals or directives,
- the Legislature and Governor could more closely monitor the successes and failures of the departments and agencies that make up state government,

- the media and general public would have a reference point with which to critique deviations from the plan by the Legislature or Governor.

The establishment of long-term plans for the state of Iowa would add direction, vision and stability to the operation of state government.

17

Jan

**Budget and GAAP Balances,  
Cash Flows and TRANS**

**DRF & DOM Presentation**

**House Ways and Means  
Committee**

**January 30, 1991**

STATE OF IOWA  
ESTIMATED CONDITION OF THE GENERAL FUND  
FISCAL YEAR ENDING JUNE 30, 1990

CALCULATION OF THE ESTIMATED UNAPPROPRIATED GENERAL FUND BALANCE

-----  
(IN MILLIONS OF DOLLARS)

FISCAL YEAR 1990  
-----

Cash Balance per the Department of Revenue and Finance - June 30, 1990		\$ 1.5
Accrued Revenues as of June 30, 1990:		
Receivables due from County Governments	\$ 11.3	
Sales Taxes	42.8	
Use Taxes	11.4	
Individual Income Taxes	103.3	
Corporation Income Tax	22.1	
Institutional Receivables	8.4	
	-----	
Total Accrued Revenues		219.3
		-----
Total Resources to be applied to remaining Fiscal Year 1990 Liabilities		\$ 220.8
Appropriations enacted and Fund Balances unexpended as of June 30, 1990		
Regular Annual Appropriation Balances	\$ 128.8	
Multi Year Appropriation Balances	11.1	
Revolving Fund Balances	14.4	
	-----	
Total Gross Appropriation Liability		\$ 154.3
Estimated Reversions of Unexpended Appropriations		-5.2
		-----
Total Net Appropriation Liability		\$ 149.1
		-----
Estimated Unappropriated General Fund Balance as of June 30, 1990		\$ 71.7
		=====

## **GAAP - National Level**

- Increased attention by NCGA and AICPA
- Mid 70's - financial crisis hit several cities, such as  
New York and Cleveland
- 1980 - Standard and Poors adopted GAAP policy statement
- 1984 - Governmental Accounting Standards Board (GASB) created

## **GAAP - State Level**

- State began accruing revenues in FY83
- Iowa Financial Accounting System (IFAS) implemented July 1, 1983
- Legislation enacted in the spring of 1985 to allow the State to issue Tax and Revenue Anticipation Notes (TRANS)
- State financial data prepared for the bond rating firms of Moody's and Standard and Poors
- GAAP<sup>B, 1983</sup> legislation included in State government reorganization bill - 1986
- First Comprehensive Annual Financial Report (CAFR) issued May 1990

# Budget To GAAP Reconciliation - General Fund

(Expressed In Thousands)

	FY90 Actual	FY91 Estimate
Fund Balance - Budgetary/Legal Basis Of Accounting Differences	71,732	18,000
Balance Sheet Accounts:		
Accounts Receivable - <i>Em. Sec. down, Ex. Council down</i>	61,710	61,700
Interest Receivable	2,267	-
Loans Receivable	1,308	1,300
Due From Other Funds	9,387	9,300
Prepaid Expenditures	3,403	-
Taxes Receivable - <i>Will be allowed 1995</i>	(199,600)	(214,600)
Accounts Payable & Accruals -	(144,763)	(148,400)
Tax Refunds Payable	(23,065)	(23,000)
Due To Other Funds	(8,748)	(8,700)
Deferred Revenue	(2,559)	(2,600)
Fund Structure Differences		
Fund Reclassifications	<u>437,404</u>	<u>409,600</u>
Total Fund Balance - GAAP Basis	208,476	102,600
Less: Reserved Fund Balance - GAAP Basis	<u>(341,053)</u>	<u>(331,500)</u>
Fund Balance Unreserved - GAAP Basis	<u>(132,577)</u>	<u>(228,900)</u>
Estimated Future GAAP Impact	<u>90,000</u>	<u>99,000</u>
Fund Balance Unreserved - Future GAAP Basis	<u>(42,577)</u>	<u>(129,900)</u>

DHS Mod Ass. \$25  
 Prop Tax Repl 35  
 Accrued Payroll 136  
 MASC 13.5  
 Foster Care 600  
 Franchise Tax 3.5

General Funds  
 Legal 50 ✓  
 GAAP 360

Department of Revenue and Finance

**GAAP DEFICIT REDUCTION SCHEDULE**

(Expressed In Millions)

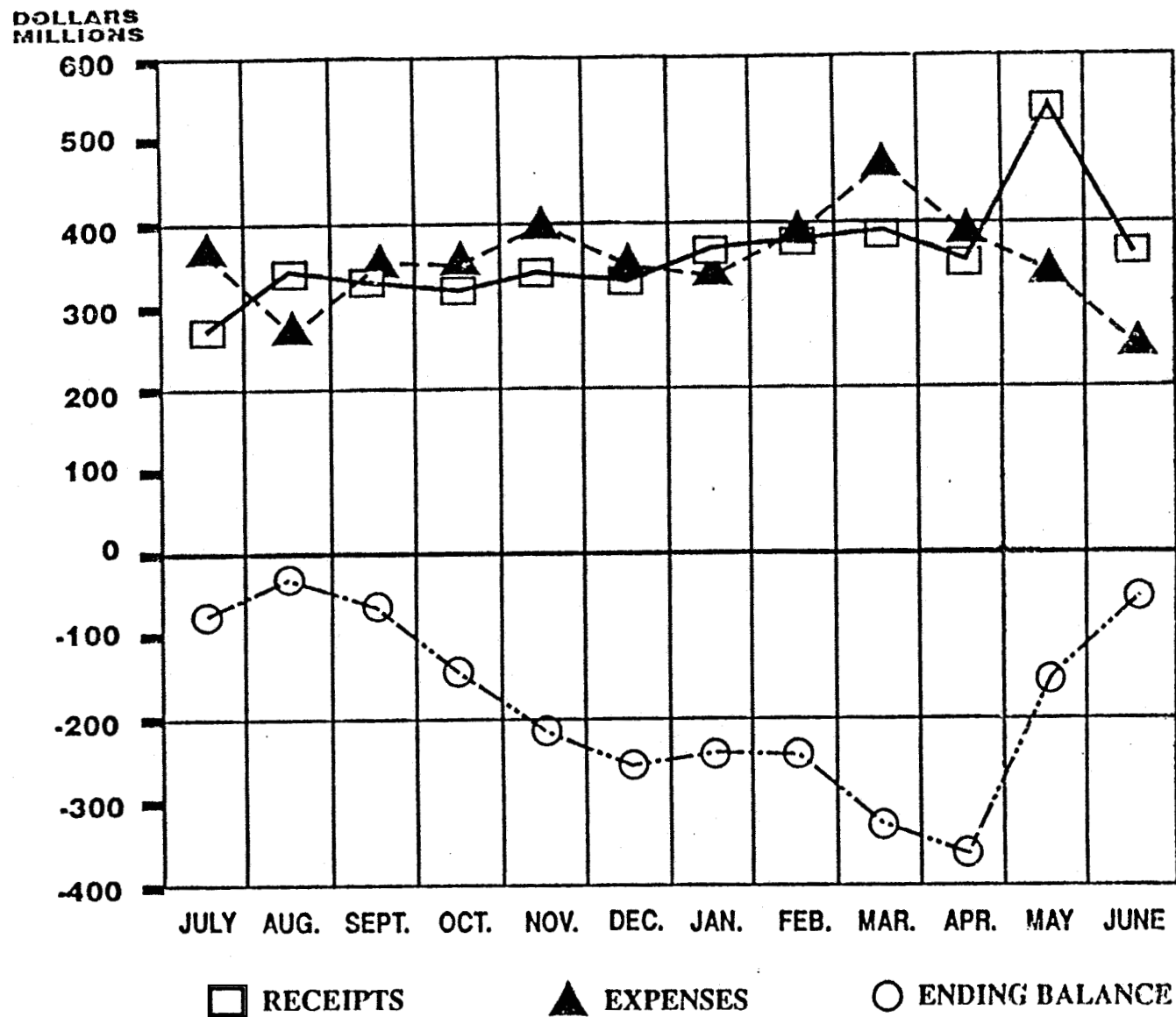
<b>FY</b>	<b>Reduction Percent</b>	<b>Target (1)</b>	<b>Current GAAP Actual/Estimate</b>
88	10%	\$ (176)	-
89	20%	\$ (156)	\$ (43) Act
90	40%	\$ (117)	\$ (133) Act
91	60%	\$ (78)	\$ (229) Est (2)
92	80%	\$ (39)	\$ (250) Est (2)
93	100%	-	\$ (232) Est (2)

(1) Target numbers calculated by applying the deficit reduction percentages by the estimated FY86 GAAP deficit of \$195 million, as estimated by Price Waterhouse.

(2) Estimates are based on legal balances contained in the Budget In Brief.



# FY '91 CASH FLOW ESTIMATED REV./EXP. AND END BAL.



# ***SUGGESTIONS FOR GOVERNMENT EFFICIENCIES***

***collected by Representative Phil Wise  
co-chair, legislative interim committee on  
Improving Government Efficiency and Operations***

***Summarized by Mary O. Fleckenstein  
28-Oct-91***

## EFFICIENCIES SUGGESTIONS

Department/Division	Suggestion	\$ Saved	FTEs Saved
<b>1. IMPROVEMENTS IN EFFICIENCY</b>			
<b>REGULATION</b>			
Commerce administration	a. If Alcoholic Beverages privatizes their warehouse, it should save 3 Commerce Administration FTEs.		3.0
	b. Privatization of the warehouse should save 42 FTEs.		42.0
	c. Overlap between the groups organized within Commerce (Banking, Insurance, Licensing) and what Commerce does. Perhaps keeping and gathering same info. Need to define purpose of Administration.		
	d. Shouldn't cut Banking, Insurance, Utilities, etc, because they're self-supporting with fees.		
Public Employment Relations Board	e. The leading increased expense is paying for court reporting to do transcripts. PERB is supposed to be looking at possibility of using video taping in administrative hearings, with transcription only if the case goes to court (and only a few do).  Need initial capital outlay for video equipment, but then the cost should go down by not having to pay court reporters. Kentucky does this. PERB would be a good place for an Iowa pilot.		
Office of Financial Regulation	f. Create single office to cover banks, S & Ls and credit unions.		
Inspections & Appeals/ Foster Care Review	g. Subcom watching it. Sunsets this year. Works well in 6th judicial district.  h. May be some inspections which can be stretched to 2 years or three years.		
Employment Services	i. Limit local labor surveys to one every 10 years. Some have done one every three or less.		
<b>HEALTH &amp; HUMAN RIGHTS</b>			
Public Health	a. Eliminate Primary and Preventive Care for Children (AKA the Caring Foundation). State funds are being phased out and we could \$0 out this year rather than next.	\$135,000	0.0
	b. Privatize Health Data Commission. It primarily serves private industry; let them pay for it.	\$300,000	
Human Rights	c. Give the agency a chance to operate. It's struggled under an umbrella set-up, and is finally making some progress. Keep it as a dept., unless we do away with the advocacy groups all together.		

Department/Division	Suggestion	\$ Saved	FTEs Saved
<b>EDUCATION</b>			
Education	<p>a. Too many chiefs, asst chiefs; not enough line staff, which slows down info turnaround. Non-competitive salaries not reason they can't fill positions.</p> <p>Should waive requirement to hold a teaching or administrator license where it's not essential to perform the duties of the position.</p>		
	b. Dual enrollment (students in non-approved private schools as public schoolers) is a \$5 million loophole for public schools in FY 92. Often done just to let private students play sports.	\$5 million	
Cultural Affairs	c. Charge admission at State Historical Building and other historical sites operated by dept. Or else suggest a donation.		
Regents	<p>d. Encourage university foundations to be more active in seeking contributions to stabilize costs of running the universities.</p> <p>e. Allow tuitions and room and board costs to approach average of comparable universities; allow universities to keep the extra funds to plow into their strategic priorities</p>		
<b>JUSTICE</b>			
Parole Board	a. Turn duties over to Dept. of Corrections.		
Attorney General	b. Eliminate farmer mediation & farmer legal aid prgms. They were set up as crisis-driven prgms, and the crisis is over.	\$200,000	
<b>ADMINISTRATION</b>			
Secretary of State	<p>a. Make appointed position.</p> <p>b. Make Lt. Gov the Sec of State. Alaska does this.</p>		
Management	<p>c. What program evaluation do they do? Need a viable system.</p> <p>d. DOM should have program evaluation, and if such functions are performed by the agencies, they should be eliminated because agencies are too self-protective.</p> <p>e. Is there a way for Legislature to use Ombudsman's Office better?</p>		
State Cafeterias	f. Privatize. Or at least make sure they pay for all costs like cleaning, equipment and space rental.		
<b>AG AND NATURAL RESOURCES</b>			
Agriculture	<p>a. Eliminate Apiary, Dairy Trade and Sheep Promotion (we don't have a cow or pig promotion bureau) Bureaus and allow ISU extension to take over.</p> <p>b. Turn international trade bureau over to DED.</p> <p>c. Privatize weights and measures. Contract out those who check the weights. Sell the three Iowa weight trucks (\$90,000 for a new one).</p>		
DNR	<p>d. Elim Environmental Protection Commission and turn duties over to DNR Cmsn, increasing membership from 7 to 9 members.</p> <p>e. Close lesser-used parks or contract out to local governments.</p>	\$400,000	

Department/Division	Suggestion	\$ Saved	FTEs Saved
<b>HUMAN SERVICES</b>			
Child support	a. Hire 72 additional child support FTEs to enhance collections; additional collections offset welfare payments.	\$2 million	Add 72 FTEs.
	b. Charge service fees for non-public assistance clients. Increase existing fees (e.g. application for service). Total budget for non-public asstnce clients - \$1.3M.	Max \$1.3 million	
	c. Privatize child support functions inefficiently operated by State, e.g. garnishment and contempt proceedings. Let State keep what it does well -- income withholding and tax offsets.		
	d. Expand lien laws to enhance enforcement of child support, e.g. liens of vehicles. Could even block license renewals or other legal transactions of persons who owe support.		
MHIs	e. Close Clarinda and Mt. Pleasant and expand community-based services to take care of clients. Divide state into 2 catchment areas for MHIs -- Independence and Cherokee. Also saves county and federal money.	\$2-4 million	
Medicaid	f. Try raising funds through voluntary contributions or provider taxes, and use \$ to draw down fed funds. May be impossible in light of new federal regs.		
<b>ECONOMIC DEVELOPMENT</b>			
DED, Regents, IPDC, Wally Tech	a. Need greater coordination and articulation of tech transfer, to get more efficient use of existing dollars.	\$0	0.0
DED, SBDC, ISU	b. Coordinate or merge regional econ dev systems. Focus special attn on RED centers and SBDCs.	\$0	0.0
DED, Intern'l Dev. Found.	c. Evaluate foreign trade offices, esp. Asian office. International Dev. Found. must have strategic plan compatible with DED's trade efforts.	\$200,000	0.0
INTERNET, Int'l Dev. Found	d. At least elim INTERNET's contribution to Int'l Dev Foundation (\$135,000), to stop a new prgm before it gets entrenched. Another \$155,000 went to DED to work with them. Wipe it all out.	\$290,250	1.5
	e. Private sector suggests we privatize foreign offices, contracting with trading companies in those countries to represent Iowa's interests.	\$812,701 for all offices	6.5
JTPA	f. Though all fed \$, do oversight to ensure the funds are effectively administered.		
Peace Institute	g. Eliminate state funds. Is not a critical state responsibility.	\$96,750	
Rural incubators	h. Elim funding. Originally promised a 3-yr prgm. Have completed 4 years. If can't survive with local resources, we shouldn't be maintaining them.	\$77,400	
<b>TRANSPORTATION AND SAFETY</b>			
DPS - DARE program	a. State troopers only cover counties in which the sheriff doesn't do it. If locals don't think it's that important, why do it? Costs federal match.	\$28,584	4.0

Department/Division	Suggestion	\$ Saved	FTEs Saved
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## 2. INCENTIVES TO ENCOURAGE AGENCIES TO SPEND LESS

- a. Positive incentives -- allow agencies to keep some of their reversions to spend to improve efficiency in future (automation, training, etc.) DOM should print and share efficiency ideas.
- b. Reward agency by increasing the same item the next year, if it's justified. Should report efficiencies when presenting budgets.
- c. Reward employees with suggestions with % of savings.
- d. Allow agencies to create cash reserve, carried forward into next year, to be used for one-time capitals, equipment, etc. They could keep some reversions, matched by DOM with other funds.
- e. Create efficiency lottery bonus award program -- agencies get extra vacation days or bonus pay or trips for all employees for implementing the most cost savings while maintaining a high level of service. All agencies compete against each other.  
Funded from pool of cost savings generated by all agencies' efforts.
- f. When cuts are made, give agency opportunity to provide alternatives to layoffs.
- g. Quality circles to enhance communication among different levels of bureaucracy and break down vertical barriers. Also promotes horizontal communication within and among depts, maybe even promoting program coordination.
- h. Cash bonuses may have drawback -- one could avoid dispensing funds which should have been spent.

## 3. INEFFICIENCIES IN STATE GOVERNMENT

- a. Co-locate field facilities of various agencies, like the federal government does.
- b. Inefficient to administer statewide programs providing local services. State folks can't effectively monitor local contractors. Solution -- look at DHS decategorization project, where all child welfare \$ are lumped into county block grants.  
Allow local steering committee to coordinate services and shuffle funds to their point of greatest need.
- c. Necessary to have lobbyist for every state agency?
- d. Highway patrol chauffeuring gov and lt. gov.
- e. Every form should be scrutinized to reduce complexity. Justify need for any info sought.

Department/Division	Suggestion	\$ Saved	FTEs Saved
---------------------	------------	----------	------------

f. Agencies waste too much time coming to legislative meetings. Let liaison do it. He/she can contact necessary people as questions come up. Maybe liaisons aren't even necessary.

g. Ditto for DHS office of communication and policy coordination (lobbyists) and other agency lobbyists. Main purpose seems to be propaganda, and limiters of info flow. Don't deliver, administer or oversee a service. Cut this before cutting services.

h. Agency computers can't speak to each other. Agencies duplicate others' agencies' work.

#### 4. EFFICIENCY IN STATE GOVERNMENT

a. Need to invest in technology to make long-term savings.

b. Consumer should be able to access a terminal for state services.

c. Revenue and Finance. They always seem to be reviewing their performance in tax audits and processing tax returns to improve work. Have experimented with contracting out services and using parttime help during peak tax season.

d. 4th judicial district CBC does all it can to save \$.

e. DNR did internal reorg and eliminated planning bureau, placing these FTEs in other division.

f. DHS decategorization project (see above).

g. Co-location of services at local level.

Mary O. Fleckenstein

effsurv

10/28/91 11:50



DENNIS C. PROUTY  
DIRECTOR  
515/281-5279

STATE CAPITOL  
DES MOINES, IOWA  
50319

STATE OF IOWA  
LEGISLATIVE FISCAL BUREAU

THE APPROPRIATION PROCESS

STATE OF IOWA

The appropriation process of the State of Iowa is based upon an annual budget system. The process involves two branches of government and requires approximately ten months to complete. According to Chapter 8, Code of Iowa, the state budget must be balanced, i.e., estimated revenues must be of a sufficient amount to fund the designated expenditures.

The following is a step by step explanation of the annual appropriation process.

1. The first step in the appropriation process is the requirement of the departments to submit requests for review to the Department of Management (DOM) by September 1st for the following fiscal year.
2. DOM reviews each department's budget request for accuracy and rationale. The Governor's Office assists DOM in this review in preparation for the budgetary hearings.
3. After DOM has reviewed each department's request, hearings are scheduled between the department, DOM and the Governor's Office. The purpose of these hearings are to clarify the departmental requests and to answer any questions regarding the requests.

Once the hearing process has been completed, the Governor's Office develops the Governor's Budget Recommendations to be presented no later than February 1st to the Legislature.

4. The Legislature convenes on the second Monday of January. By February 1st, the Governor appears before a joint convention of the General Assembly to formally present the budget. This presentation shall be in three parts.
  - A. The Governor's budget message,
  - B. Recommended appropriations, and
  - C. Appropriation bills.



At this point the legislative branch becomes the focal point in the appropriation process. The Legislature's non-partisan staff, i.e., Legislative Fiscal Bureau, provides support and information by analyzing the Governor's budget and assessing its strengths and weaknesses.

5. The General Assembly must appropriate all state dollars. To begin this part of the appropriation process the legislative leaders develop guidelines and set timetables.
6. After timetables and guidelines have been established, the appropriations subcommittees begin evaluating the Governor's budget for each department. These are joint subcommittees with both House and Senate members and are divided into functional areas which concentrate on specific areas.

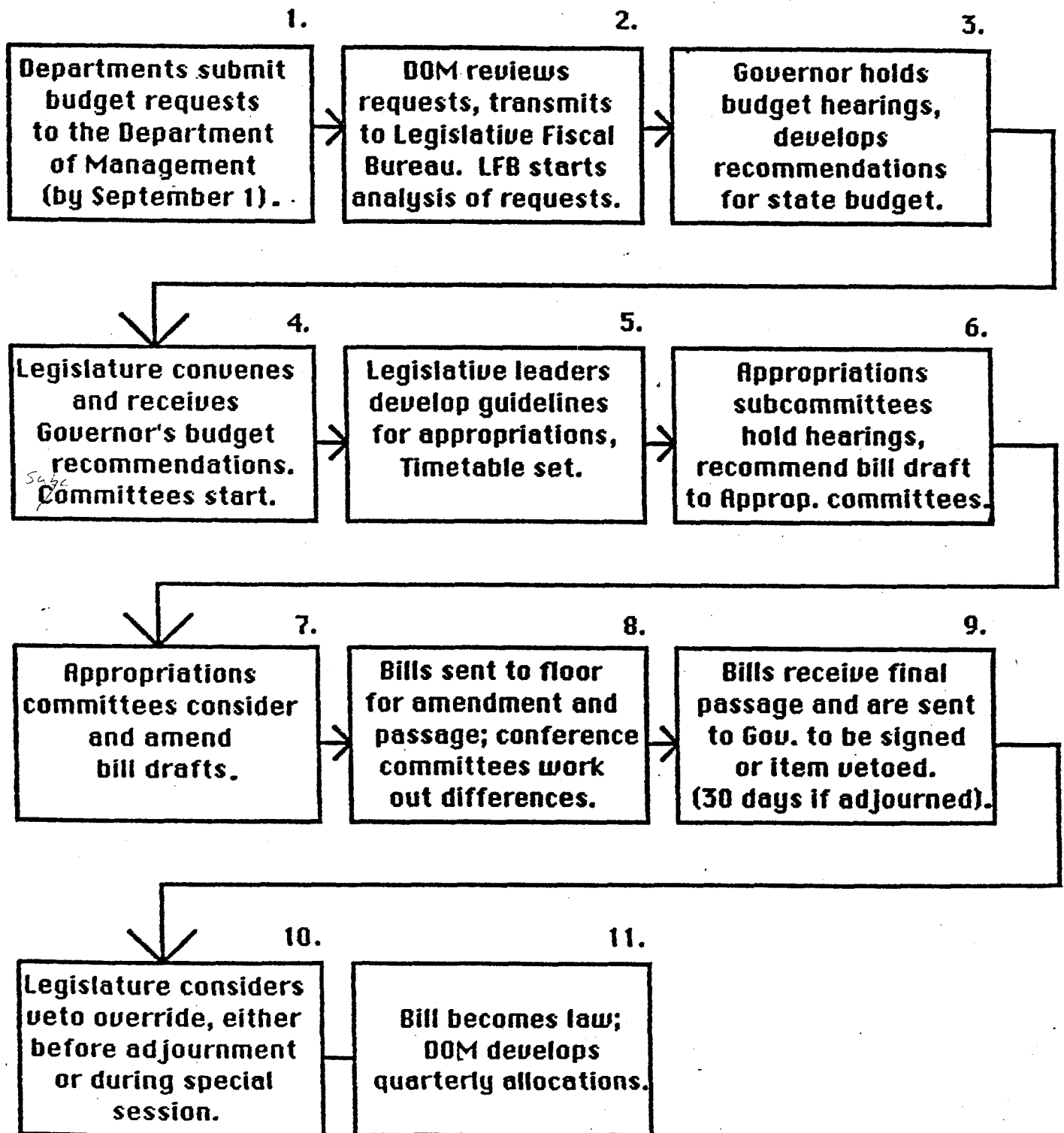
These appropriations subcommittees meet approximately ten hours a week for several weeks examining in detail the different departmental budget requests and Governor's recommendations. The subcommittees hold hearings at which department personnel and other interested parties give testimony and answer questions regarding the budget.

7. Once hearings have been completed, the subcommittees make recommendations concerning appropriations, FTE positions and intent language for every department under their purview for the upcoming fiscal year. These recommendations are made to the Appropriations Committees of both chambers in bill draft form.
8. At this point the Appropriations Committee in one chamber takes the subcommittee recommendations and decides to accept, amend, or return the recommendations to the subcommittee for reconsideration. At some point the Appropriations Committee passes a bill to be sent to the full body for consideration.

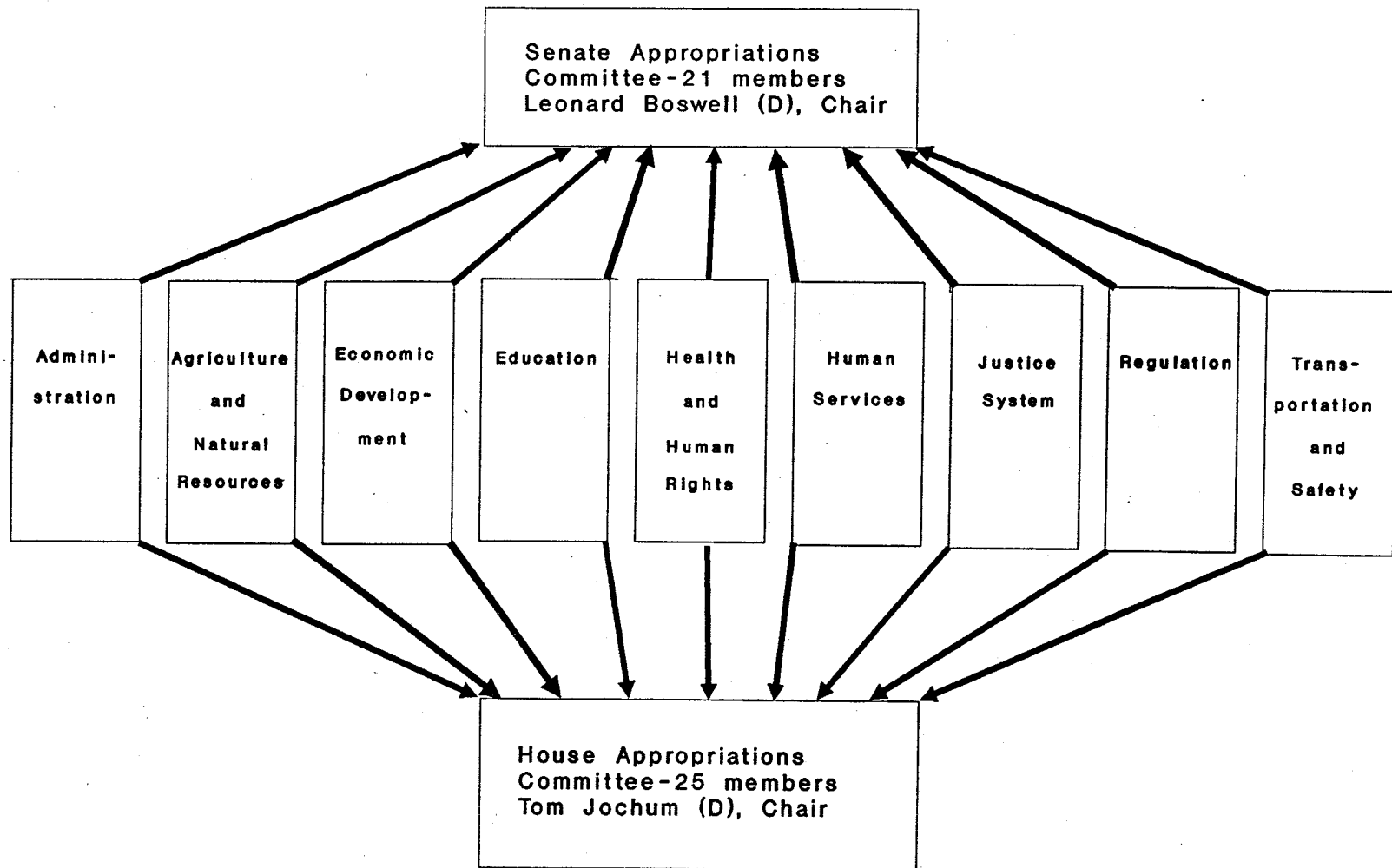
Once approved by one chamber, the budget bill(s) is sent to the Appropriations Committee of the other chamber. The process is the same as in the originating chamber.

9. Upon passage of the budget bill(s) by both chambers in identical form the bill(s) go to the Governor for signature. The Governor has three days (Sunday excepted) to approve or veto bills which have been submitted for approval during the session. However, the Governor has thirty days from adjournment to approve or veto bills submitted for approval during the final three days of the session.
10. The Governor has item veto power for appropriation bills. If the Governor chooses to exercise this power, the Legislature may override the veto before adjournment or during a special session.
11. The appropriation process has been completed and the budget is in effect beginning July 1st.

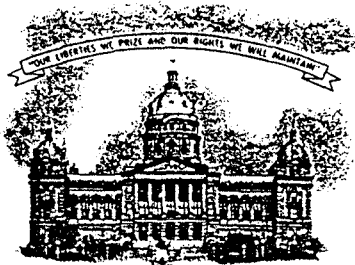
# The Legislative Budget Process



# Joint Appropriations Subcommittees



DENNIS C. PROUTY  
DIRECTOR  
515/281-5279



STATE CAPITOL  
DES MOINES, IOWA  
50319

STATE OF IOWA  
LEGISLATIVE FISCAL BUREAU

MEMORANDUM

TO: Members of the Legislative Council  
FROM: Dennis C. Prouty *DJP*  
DATE: July 13, 1988 (680b)  
RE: Proposed changes to the Code of Iowa necessary  
to improve the budget and appropriations process.

Last interim, legislative leadership requested that alternatives be developed to improve the budget and appropriations process. Several alternatives were developed, ranging from modifications to the current process to the actual development of a legislative budget. Members of joint leadership chose to modify the current system, while maintaining the future capability of developing a legislative budget.

In a document distributed to all members of the General Assembly in September, 1987, the Fiscal Bureau outlined the procedural changes, enforcement of current statutory requirements and recommended changes to the Code of Iowa necessary to enhance and improve the current budget and appropriations process.

During the past legislative session, many of the procedural changes, enforcement of current statutory requirements, and increased legislative oversight activities were effected. The recommended Code changes were not implemented. In light of the procedural changes and the increased oversight activities which were implemented this past session, I have reviewed my earlier recommended Code changes, and made some necessary modifications and additions.

The following pages outline these proposed Code changes which I submit for your consideration during the 1989 legislative session.

- o Current Code language states that, commencing September 1, the director of the Department of Management (DOM) shall provide weekly budget tapes to the Legislative Fiscal Bureau (LFB) reflecting finalized agency budget requests for the following fiscal year as submitted to the Governor. The proposed Code change is to strike the word "finalized" from this requirement.

**Benefit to legislators:** The Department of Management will not transmit an agency request until the agency has "signed off" on or approved, the request. Often this does not occur until shortly before the November 15 deadline when all agency requests are to be in final form and transmitted by tape to the LFB. This Code change would enable the LFB to begin analyzing the agency requests at an earlier date in the budget process, and allow legislators and staff to become more informed about the agency requests and issues prior to session.

Code Section affected: Chapter 8.35A(2)

- o Require the final computer tape containing all department requests be transmitted to the LFB by November 1 (current Code date is November 15). In addition, as part of the enforcement of Chapters 8.23 and 8.40, require the Department of Management to submit the previous year's appropriation level as the budget request for those agencies which fail to meet the September 1 deadline. The Governor should also be required to submit the previous year's appropriation (or less) for those agencies which fail to "finalize" their budgets by the November 1 deadline. The director of the Department of Management should also be prohibited from changing any of the "historical" data or the department requests after the November 1 deadline.

**Benefit to legislators:**

1. Advancing this date by two weeks will allow the LFB staff to prepare an in-depth analysis during the month of November for distribution to legislators in mid-December.
2. Enforcing the September 1 date (Chapter 8.23, Code of Iowa), by requiring the DOM to submit the previous year's appropriation level as the budget request for agencies failing to meet the deadline would ensure that the LFB analysis is based on accurate data and encourage the agencies to submit their requests to the Department of Management in a timely manner.

3. Enforcing the November 1 date by requiring the Governor to recommend the previous year's appropriation or less for those agencies which fail to meet the deadline and prohibiting the change of any historical data or department requests after the November 1 deadline would also ensure that the LFB analysis is based on accurate data. Last fall, the LFB staff began their analysis of the department requests using the November 16 budget tape. Subsequent tapes received from the Department of Management contained changes in the FY 1987 actual appropriation column, the estimated FY 1988 column, as well as changes in the departments' requests. These changes amounted to several million dollars and affected numerous agencies.

Code Sections affected: Chapter 8.23 and 8.35A(2)

- o Require that the Revenue Estimating Conference prepare an estimate by December 1 (current date is December 15) of each year for the current fiscal year and for the fiscal year beginning the following July 1. Other proposed changes to Chapter 8.22A include: requiring that the third member of the Conference be from outside state government, and that member shall be reimbursed for their actual expenses incurred in the performance of their duties and may be eligible to receive per diem as provided in Chapter 7E.6.

**Benefit to legislators:** Changing the date of the December conference would enable leadership to begin considering legislative revenue and spending priorities in December and establish revenue and spending limits for each appropriations subcommittee and Ways & Means committees by February 15.

The other changes would ensure that the third member is from outside state government and independent of the Executive and Legislative branches. Providing per diem and expenses would treat the non-state employee member of the Conference like other state board and commission members.

Code Section affected: Chapter 8.22A

- o Require the Department of Management to prepare a public budget containing DOM recommendations by December 1.

**Benefit to legislators:** Chapter 8.25 requires DOM to prepare a "tentative budget" containing DOM's appropriation recommendations to the Governor. This change would require

that this "tentative budget" be made public and departments could then respond to this recommended budget in the Governor's public hearings, rather than merely presenting a recap of their budget request.

Code Section affected: Chapter 8.25

- o Require that the final computer tape containing the Governor's Recommendations and final agency requests be transmitted to the LFB by January 1. (Current Code requirement is January 1 or no later than the Governor's budget document is delivered to the printer).

Benefit to legislators: The Governor's budget book is usually not delivered to the printer until one week before the Governor's budget message to the General Assembly, which is generally in mid-January. Changing this date would assure the LFB adequate time preparing an analysis of the Governor's budget and make this analysis available to legislators within one week of the Governor's budget address. The analysis would include an explanation of projected revenues and an explanation of differences between the current year's appropriation, the department request, and the Governor's recommendation.

Code Section affected: Chapter 8.35A (2)

- o Require that the director of the Department of Management provide the following additional information to the LFB:
  1. By July 1, the monthly planned expenditures for each appropriation, for the fiscal year, in the form and level of detail requested by the bureau. Chapter 8.35A(1) should also be changed to require that the LFB receive by the 15th of each month, updates regarding changes to the monthly planned expenditures and that any changes be explained in writing by the director of the Department of Management.
  2. By July 1, the projected full time equivalent (FTE) position level for each appropriation for the fiscal year, in the form and level of detail requested by the bureau. DOM should also provide monthly updates on personnel utilization; the actual and projected versus budget personnel services expenditures and FTE positions.
  3. Current law requires the director to transmit the total record of an appropriation, including reversions and transfers for the prior fiscal year ending June 30, to the LFB. The Code should be

changed to include the actual FTE position level for the prior fiscal year in this report.

**Benefit to legislators:**

1. Currently, DOM does provide the monthly planned expenditures to the LFB. This change would be codifying current practice. Requiring DOM to provide monthly updates regarding changes in the planned expenditures would enhance the LFB's expenditure oversight activities.
2. DOM does not currently provide the FTE data to the LFB. This Code change would enable the LFB to track FTE positions throughout the fiscal year and examine the actual expenditures for personnel services compared to the budgeted level of expenditures. This information would aid the LFB in answering questions such as: a) Is the department actually filling all of the authorized FTE positions; b) How long are positions being held vacant; and c) Are budgeted salary dollars being used for salaries? This is what has been termed "FTE tracking" and is an important oversight function.

Code Section affected: Chapter 8.35A(1)

- o Require that the LFB be notified at the same time the appropriations chairpersons are notified of an appropriation transfer and also require that the LFB receive the monthly report of all Chapter 8.39 transfers. Currently, DOM must notify the chairperson of the appropriations committees and the chairpersons of the appropriation subcommittee of the proposed transfers. DOM also makes a monthly report of all transfers to the Fiscal Committee.

**Benefit to legislators:** The director of the Department of Management does notify the director of the LFB of appropriation transfers made under Chapter 8.39A. This change would codify current practice and ensure legislative review of appropriation transfers prior to their occurrence. **The General Assembly should also consider limiting transfer authority and at the very minimum, the Fiscal Committee should require a sufficient explanation as to why the transfer is required and why the source of the transferred funds has funds available for the transfer. Other methods of limiting transfer authority could include:**

1. Eliminate Chapter 8.39, which allows interdepartmental and intradepartmental appropriation transfers. The General Assembly could approve a bill dealing with necessary transfers during the



legislative session. A 1983 survey by NCSL shows that the majority of states do not allow appropriation transfers between departments, and a number of states allow only limited transfers between programs within a department.

2. Require the approval of a legislative committee (such as the Fiscal Committee) prior to the transfer of any funds.
3. Allow subcommittee chairpersons, appropriations committee members or Fiscal Committee members to protest proposed transfers and delay the transfer process until the Fiscal Committee has had a chance to review it.

Limiting transfer authority will ultimately strengthen the legislative oversight function and help answer the question: Are funds being spent as they were intended to be spent by the Legislature?

Code Section affected: Chapter 8.39

- o Require the Department of Management to provide the LFB with copies of approved or modified allotments of State funds.

Benefit to legislators: Currently, requisitions for allotments of appropriations are approved by the director of the Department of Management subject to review by the Governor. This Code change would enhance the budget oversight activities of the LFB, and assist members of the General Assembly in determining if appropriated funds are spent as intended.

Code Section affected: Chapter 8.31

- o Require that when an official report is required by law to be submitted to the General Assembly or its members, the report shall be accompanied by a cover letter citing the relevant statutory provisions and be submitted to the following:

1. The Lieutenant Governor and the Speaker of the House.
2. House and Senate majority and minority leaders.
3. The Secretary of the Senate and the Chief Clerk of the House.
4. The directors of the Legislative Fiscal Bureau and the Legislative Service Bureau.

Benefit to legislators: This Code change would enhance legislative oversight activities by providing for

distribution of mandated reports to legislators and staff.

Code Section affected: Chapter 17.11 (new section)

o Technical Code changes:

1. In Chapter 8.35A(3), require that the director of the Department of Revenue and Finance as well as the director of the Department of Management communicate any changes or anticipated changes to the budgeting system or the accounting system in writing to the LFB prior to implementation.

Rationale: As a result of state government reorganization, the Department of Revenue and Finance is responsible for the state accounting system.

2. In Chapter 8.40, the reference to the state comptroller should be changed to the director of the Department of Management.

Rationale: There is no longer a state comptroller. Most of the functions of that position have been assumed by the director of the department of Management.

Proposed procedure changes:

The following changes are proposed procedure changes which I recommend the House and Senate Rules Committees consider:

o Restrict conference committees from adding new items or deleting items in the bill which have already been agreed upon by both chambers. Some possible methods of restricting conference committees include:

1. If new items are introduced, require a two thirds vote of the conference committee to approve the addition. The same requirement could apply if a conference committee would want to delete an item already approved by both chambers.
2. Allow conference committees to pass out an appropriation bill and a statutory bill.

Benefit to legislators: Such a procedure change would help maintain the integrity of decisions made during the legislative appropriations process.

- o Rules discouraging the mandating of studies and evaluations in appropriation bills.

Benefit to legislators: Requests for studies should be presented to the Legislative Council. The Council is charged with reviewing study proposals and allocating staff resources to the approved studies.

#### Procedural changes implemented during 1988 session

The following procedural changes were implemented during the 1988 session in an effort to improve the budget and appropriations process. These changes should be continued.

1. Continued enforcement of Chapters 8.23 and 8.40 regarding the dates that department budgets are to be submitted to the Department of Management.
2. Mid-December meeting of appropriations subcommittee chairpersons, ranking members and LFB staff.
3. Spending targets established and communicated by leadership by mid-February.
4. "Appropriation Funnel", including one bill per appropriations subcommittee. However, do not implement the funnel at the same time as the regular bill funnel.
5. Highlighting statutory language in appropriation bills (noted in LFB bill summaries).
6. Enrolled appropriation bills sent to the Governor prior to the end of session.
7. Utilize visitation committees and expand the Fiscal Committee's function.



DENNIS C. PROUTY  
DIRECTOR  
515/281-5279

STATE CAPITOL  
DES MOINES, IOWA  
50319

STATE OF IOWA  
LEGISLATIVE FISCAL BUREAU

MEMORANDUM

TO: Members of the General Assembly

FROM: Dennis C. Prouty *DCP*

DATE: September 9, 1987 7932 3521

RE: Strengthening the Current Budgeting and Appropriation Process

At the direction of legislative leadership, the Legislative Fiscal Bureau (LFB) was requested to develop alternatives and/or modifications to the current legislative budgeting and appropriation process.

Three alternatives, ranging from modifications to the current process to the development of a "legislative budget" were developed by the LFB and reviewed by legislative leadership and caucus staff.

Alternative #1 outlined the changes necessary to strengthen the current budgeting and appropriation process.

Alternative #2 outlined the development of a legislative budget completely separate from the Governor's budget. This would be a budget developed prior to the legislative session and would be developed and considered by the legislature separately from the Governor's budget.

Alternative #3 outlined the development of a joint executive and legislative branch budget, modeled after the budget process in the state of South Carolina.

Members of legislative leadership, caucus staff and LFB staff met on September 3 to discuss the alternatives. At that meeting, members of leadership stated that they are interested in strengthening the current budgeting and appropriation process (Alternative #1).

The attached document outlines the changes which are necessary to strengthen the current budgeting and appropriation process. Specifically, the document contains:

- A. the problems with the current system as identified by the legislators and staff members
- B. questions and problems which should be addressed in developing a sound, workable solution
- C. the procedural changes, enforcement of current statutory requirements, and increased legislative oversight activities by legislators and staff which are necessary to resolve the identified problems with the current process

A detailed, step by step chart outlining the changes necessary to strengthen the current process is available from the Fiscal Bureau upon request. Brief outlines of Alternatives 2 and 3 are also available. If you have any questions concerning this document, or if you would like more information, please contact the Fiscal Bureau.

LFB:783b

Problems identified by legislators and staff members include:

The following problems with the current budget and appropriation process were identified by legislators and staff members:

- o Frustration by individual legislators because they have too little decision-making authority regarding individual appropriations; a few people are making the major decisions, usually in the closing hours of the session.
- o Subcommittee chairpersons are frustrated because they feel that their authority is usurped by leadership and staff.
- o Conference committees on appropriation bills add new items to the bill or delete items already agreed to by both chambers.
- o Due to the timing of the current appropriation process, the Governor does not receive the enrolled appropriation bill(s) until after the Legislature adjourns. Therefore, the Legislature is not able to consider any of the Governor's item vetoes during the regular session.
- o Once funds are appropriated by the Legislature, the Executive Branch expends the funds, often with little regard for legislative intent. This problem is exacerbated by the fact that in the past, departmental expenditure information has not been readily available, and legislative intent is often unclear or undefined.
- o Department budget requests are due in the Department of Management (DOM) by September 1 for the following fiscal year, yet some departments ignore this Code requirement. Department requests were not finalized until early January for the 1987 session. This resulted in very little time for staff to analyze the department requests prior to the legislative session.
- o The current system reflects strong Executive Branch control. The Legislature uses the Governor's recommendations as part of its working budget document, this puts the legislature in the role of reacting to the Governor's budget. Budget requests submitted by the departments may be significantly changed by the Governor's Office prior to the "finalization" of the department budget request and the Governor's budget message. In addition, the Governor has item veto authority, the ability to transfer funds without legislative approval, and the power to appoint most department directors. Moreover, DOM has the authority to allocate appropriated funds. This all contributes to the Governor's control of the budgeting process.

### Developing a sound, workable solution

During the analysis of the problem and the potential solutions, it became apparent that the Legislature must address the following questions/problems in order to develop a sound, workable solution.

- A. Does the Legislature want to assume a new role in the appropriation process through the development of a legislative budget or is the goal to change the current budgeting process and avoid the problems experienced during the last few sessions?
- B. Is the goal of the Legislature to strengthen the individual legislators' role in the appropriation process? Can this be done by strengthening the role of appropriation subcommittees? What is the subcommittee role - should it be continued if the Iowa Legislature develops a legislative budget?
- C. How involved do legislators want to be in the budgeting process? A Legislative budget requires the Legislature to make decisions on revenue and expenditures which are currently made in the Executive Branch. This shifts the focus of responsibility for budgeting decisions from the Executive Branch to the Legislative Branch. The development of a legislative budget would also require considerable time and effort on the part of the legislators, much of it before session. In addition, the development of a legislative budget would require a number of Code changes involving the Governor's Office, the Department of Management and executive branch departments.
- D. Should there be one large appropriation bill or a bill for each area (e.g. Education, Transportation)?
- E. What type of budget information is desired? The current modified base budget and decision package information provided by the Department of Management could be changed, but this would require an extensive development effort by DOM staff and LFB staff. Some other options include, but are not limited to, the following types of budgeting:
  - a. Program budgeting: This approach focuses on goals to be achieved rather than on dollar amounts to be spent. Departments are required to develop a program budget based upon its particular goals and objectives. Each department also specifies alternative methods for achieving those goals, and for each alternative, cost benefit analysis is

utilized to determine the most cost effective method of achieving the desired goals.

- b. Incremental budgeting: The basic assumption of this approach is that the existing base or current level is a proper reflection of funding needs. Incremental increases applied to the various portions of the base is sufficient for continued department or program operation. Increases may be calculated as a percentage increase for specific line items. (i.e. due to inflation, etc.)
  - c. Performance budgeting: This approach measures achievement according to established standards for designated budgeting units. For example, a performance budget for a community development program would indicate how much money was spent to achieve that goal and also how many clients were moved to community residential facilities, and how many such facilities were opened.
- F. What is meant by the term "legislative oversight"? The following are several of the methods available for legislative oversight:
- a. Legislative Intent: Provides specificity in appropriation bills regarding the General Assembly's intended usage of funds and policy goals. Also provides a basis for tracking actual fund expenditures.
  - b. Expenditure Oversight: Utilizes analysis of monthly and year-to-date expenditures by departments to identify potential problems. (See Appendix A for detailed progress report.)
  - c. Policy Oversight: Includes the development of clear goals, objectives and performance measures for departments and programs and analysis to determine if the established goals and objectives are being met. Also may include issue analysis, program evaluation or performance audit where serious problems are identified through review of performance measures. (See Appendix B for detailed progress report.)
  - d. New Program Review: Requires executive branch departments to clearly identify goals, objectives and performance measures for any new program. Individual departments would be required to provide ongoing status reports to the legislature regarding new programs. Departments may not proceed with implementation until the legislature



has reviewed and approved each status report.

- e. Administrative Rules Review: Provides an opportunity for the Rules Review Committee to examine proposed department rules to insure conformity with legislative intent. Also, allows the General Assembly to debate and nullify or approve administrative rules that do not reflect legislative intent.
- f. Sunset Legislation: Establishes a fixed date on which a program would terminate. Continuation of the program requires legislative review and action.
- g. Interim and Visitation Committees: Monitors and insures the enactment of legislative intent by following up on specific legislative action affecting departments, facilities or programs. Where legislative intent is not being met, recommendations for corrective action are made.
- h. Transfers and Across the Board Cuts: Requires the Governor to notify the General Assembly or a committee prior to any such action. Could require affirmation by the legislature or committee prior to the action being implemented.
- i. Consideration of Governor's Vetoes: Assures that appropriation bills are enrolled and sent to the Governor at least three days prior to the end of session. This provides the opportunity for the legislature to review any vetoes and take any necessary action.

## STRENGTHENING THE CURRENT BUDGETING AND APPROPRIATION PROCESS

Through procedural changes, enforcement of current statutory requirements, and increased legislative oversight activities by legislators and staff, many of the problems outlined can be resolved. Implementation can begin this interim on some of these items, although full implementation could not occur until the 1989 session. It is important to note that all of the identified problems will not be solved by January. The oversight activities, both expenditure and policy oversight, are new to the Iowa Legislature and much analysis and development work still needs to be done. X

Important points about this alternative which should be considered include:

### Budget and appropriation process:

- o Enforcement of Sections 8.23 and 8.40, Code of Iowa requiring the Governor to prepare a budget if the department fails to do so. Section 8.23 requires all departments to submit a budget request for the following fiscal year to the Department of Management by September 1. Section 8.40 establishes a penalty of a fine or removal from office (department director) or impeachment (elected official) for non-compliance with any section of Chapter 8. Other potential solutions to the lack of compliance with Section 8.23 might include: TRACED  
JULY 1989  
CIRCUIT  
STILL PENDING  
DOT - RESERVE

1. a meeting of the department director with leadership, chairpersons and ranking members of the subcommittee, or the Fiscal committee to explain why the deadline was not met.
2. impose a sanction, such as appropriating the same amount as the previous fiscal year, if a budget request is not submitted by the September 1 deadline.

- o Final tape containing all final department requests transmitted to the LFB by October 1 (current Code date is November 15). This would allow for in-depth analysis of the department requests during the months of October through December. The analysis would be distributed during the first part of December to legislative members and staff allowing members to become better informed about the departments' request prior to session. A Code change is required and this change could not be fully implemented until FY 1990. NOT CHAIRMAN  
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For FY 1989, an analysis of the final budget requests received on tape by November 15 will be distributed to legislators and staff in early December. Those departments

which have not submitted and finalized budget requests by the November 15th deadline will not be included in the LFB's early December analysis.

- o Require that the Revenue Estimating Conference prepare an estimate by November 15 (current date is December 15). This would enable leadership to begin considering legislative revenue and spending priorities in December and establish revenue and spending limits for each appropriation subcommittee and Ways & Means committees by February 15. A Code change is required and this change could not be fully implemented until FY 1990 DATE 11/01
- o Require the Department of Management to prepare a public budget containing DOM recommendations by December 1. (Code change required). Departments could then respond to this budget in the Governor's public hearings. 11/01
- o The LFB prepares an analysis of DOM's budget for the Fiscal Committee and legislators attending the Governor's budget hearings. Included in the analysis is a list of major budget issues facing the legislators in the ensuing legislative session, and a review of projected revenues as determined by the Revenue Estimating Conference. 11/01
- o Subcommittee chairpersons and ranking members would meet with LFB staff in mid-December to review department budget requests. At this meeting, the LFB staff would also review oversight data including monthly expenditures, year to date expenditures, policy oversight and related budget issues. This meeting would allow legislators and staff to plan the subcommittee meetings and subcommittee work for the upcoming legislative session with the intention of making subcommittee meeting time more productive and meaningful. Dec 22
- o The LFB prepares an analysis of the Governor's budget and makes this available to legislators within one week of the Governor's budget address. The analysis includes an explanation of projected revenues, an explanation of differences between the current year's appropriation, the department request, and the Governor's recommendation. 6/01
- o Leadership establishes spending limits and revenue priorities not later than February 15 for each appropriation subcommittee and the Ways & Means committees. Feb 15 2001
- o Appropriation bills should be limited to one subject area. (one bill for each appropriation subcommittee)
- o Statutory language in appropriation bills should be restricted and highlighted in a manner determined by the House and Senate Rules Committees. Some possible methods of restriction and highlighting include:

1. Specifically identify Code changes in the appropriation bill by underlining, highlighting, or some other specific notation.
  2. Include a section in the "bill explanation" identifying and summarizing statutory changes.
  3. Separate document (similar to a fiscal note) identifying and summarizing statutory changes in appropriation bills. Such a document could be included in the "clip sheet".
- o The House and Senate Rules Committees should also consider rules restricting conference committees from adding new items or deleting items in the bill which have already been agreed upon by both chambers. Some possible methods of restricting conference committees include:
1. If new items are introduced, require a two thirds vote of the conference committee to approved the addition. Same requirement could apply if a conference committee would want to delete an item already approved by both chambers.
  2. Allow conference committees to pass out an appropriation bill and a statutory bill.
- o Enrolled appropriation bills sent to the Governor prior to the end of session allowing the Legislature time to consider item vetoes.

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Oversight activities:

- o The LFB prepares an analysis of department year-to-date expenditures and presents this analysis monthly to the Fiscal Committee. Data provided in these analyses should assist the committee in answering the following questions:
1. Which expenditures look unusual and why?
  2. Are salary dollars being expended as anticipated?
  3. Are any transfers taking place between line items and why?
  4. Does it appear that a supplemental appropriation will be needed for any program and if so, how much?
  5. What has caused the overspending? -- e.g., more cases than expected, higher costs of services, etc.
  6. What are the anticipated reversion amounts? Can funds be deappropriated where under budget and if so, how much?
  7. What areas should the Fiscal Committee pursue by

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calling in department staff for a briefing and to answer questions?

8. Are the departments meeting legislative intent? Note any difference between the level of expenditure and what the subcommittee intended or expected during the session.

- o More frequent meetings of the Legislative Fiscal Committee to review budget and policy matters in state departments. ?
- o Utilize the Visitation Committee process and the subcommittee process as an oversight tool in an effort to strengthen the legislature's ability to effectively appropriate state funds and monitor the expenditure of those funds. YES ?
- o Frequent meetings during the session between LFB staff, appropriate legislative staff, and legislators to discuss appropriation issues, review department spending plans, review actual department expenditures, and to plan visitations for the interim. JAMES L. ...
- o Increased use and documentation of intent language, either in committee minutes, resolutions or in appropriation bills to facilitate LFB analysis of a department's achievement of legislative goals. LFB staff should review subcommittee minutes prior to the chairpersons' final approval and distribution to assure that legislative intent has been clearly stated. Amendments to appropriation bills could contain statements of legislative intent. JAMES L. ...
- o Weekly meetings during the session and bi-weekly meetings during the interim months between members of the LFB staff and members of the caucus staff. The purpose of the meetings would be 1) to review oversight information and provide updates on departmental budget activities, and 2) discuss other related legislative issues. Oversight information includes the review of actual departmental expenditures, analysis of deviations from expected levels of expenditure, anticipated supplemental appropriation needs, and anticipated reversions. JAMES L. ...
- o Continue the policy oversight activities initiated during the 1987 session which includes the identification of goals and objectives for programs and departments and the development of performance measures for each identified objective. The first three weeks of appropriation subcommittee meetings could be used to review interim oversight activities and to review department operations in accordance with legislative intent. JAMES L. ...
- o Strengthen the legislative review and approval over appropriation transfers. Require that the LFB be notified

at the same time the appropriations chairpersons are notified of a transfer. An ultimate goal would be to limit transfer authority by requiring approval of a legislative committee prior to any transfer of funds (Code change required). However, realizing that this may not be a realistic goal, the Legislative Fiscal Committee should require a sufficient explanation as to why the transfer is required and why the source of the transferred funds has funds available to be transferred.

The following chart outlines a FY 1989 budget timeline on a monthly basis beginning with the month of September, which is currently the beginning of the budgeting cycle. The two columns reflect the following:

1. the FY 1989 budget timeline
2. the benefit to legislators and others of the "action" in the first column

The chart is meant to be an overview of the budget timeline - more detailed information concerning this alternative is available from the LFB.

## STRENGTHENING THE BUDGETING AND APPROPRIATION PROCESS

### FY 1989 BUDGET AND APPROPRIATIONS TIMELINE (beginning Fall, 1987)

### BENEFIT TO LEGISLATORS

#### September 1

Enforcement of Section 8.23 & 8.40 (Sept. 1 deadline)  
Department budgets to Dept. of Management. Require  
department directors to meet with leadership,  
subcommittee chairs & ranking members, or Fiscal  
Committee to explain why the deadline was not met.  
Could impose sanctions for failure to meet deadline.

- o More thorough analysis of Department budget request  
by LFB staff. Also would allow for distribution  
of analysis and summary of Department requests  
to legislators and staff by early December.

#### November 15

Final tape containing department requests transmitted  
from the Dept. of Management to the LFB. (Code 8.35A)

- o Analysis of all final department requests  
received by November 15 prepared and distributed  
to legislators in early December to enable them to  
be better informed about the department requests  
prior to session.

#### December

Mid-December - Subcommittee chairpersons & ranking  
members meet with LFB staff to review department  
budget requests, oversight information, interim  
activities and related budget issues.

- o Allow the chairpersons and ranking members to  
plan subcommittee meetings and direct subcommittee  
work for the session. Will make session time more  
productive.

Mid-December - Fiscal Committee meets - reviews  
department budget requests, oversight information,  
visitation committee reports; receives update on  
legislative intent based on previous session.

- o Make legislators aware of the budget issues  
prior to session and thereby making session com-  
mittee time more productive.

December 15 - Revenue Estimating Conference prepares  
estimate. (Code 8.22A)

- o Enable leadership to begin considering legislative  
revenue and spending priorities in December using  
the REC estimate.



## STRENGTHENING THE BUDGETING AND APPROPRIATION PROCESS

### FY 1989 BUDGET AND APPROPRIATIONS TIMELINE (beginning Fall, 1987)

### BENEFIT TO LEGISLATORS

#### January thru April

- o January - LFB prepares the final budget forms to be used by the subcommittees
  - o Governor's budget message delivered the third or fourth week in January. LFB prepares and distributes an analysis of the Governor's budget within one week of the budget message.
  - o "Appropriation Funnel"
    - 1st 3 weeks of subcommittee meetings devoted to oversight
    - 2nd 3-4 weeks devoted to dept. hearings & decision making
    - Leadership provide spending guidelines by February 15
    - Full appropriations meetings complete by mid-March
    - Floor debate & conf. committees completed by mid-April
    - One budget bill per appropriation area (subcommittee)
  - Restrict & highlight Code language in appropriation bills. House & Senate Rules Committees should establish the limitations.
  - Limit the addition of new items or the deletion of items already agreed upon by both chambers. House & Senate Rules Committees should establish the limitations.
  - Bills to the Governor in plenty of time to consider any vetoes. .
- o Budget forms will contain the department request and the Governor's recommendation - distributed after the Governor's budget message.
  - o LFB analysis includes an explanation of projected revenues, an explanation of differences between the current year's appropriation, the department request and the Governor's recommendations.
  - o Opportunity for increased input from individual legislators
  - o Opportunity for increased communication between leadership and legislators concerning spending priorities; stronger link between appropriations and legislative policy
  - o Help to maintain the integrity of the decisions made during the process

## STRENGTHENING THE BUDGETING AND APPROPRIATION PROCESS

### FY 1989 BUDGET AND APPROPRIATIONS TIMELINE (beginning Fall, 1987)

### BENEFIT TO LEGISLATORS

#### January thru April (cont'd)

- o Continue to increase legislative oversight activities
  - Increase documentation of legislative intent
  - Expenditure oversight
  - Policy oversight

- o Identify potential problems such as departments not spending funds as legislature intended; identify unclear goals, objectives & areas for potential policy change. Increased oversight facilitated by increased expression and documentation of legislative intent.

#### May thru June

- o LFB prepares summary of Governor's item vetoes, finalizes bill summaries, prepares annual appropriations report, begin tracking legislative intent.

- o Summary of item vetoes and appropriations report is distributed to all legislators and staff.

#### July

- o July 1 - Department of Management provides expected expenditure breakdown for each appropriation (Code 8.35A)

- o LFB reviews expected expenditure breakdown, including DOM's allotment of salary adjustment dollars; also reviews preliminary reversion report.

#### ONGOING AND INTERIM ACTIVITIES

- o Utilize Visitation Committees
- o Expand Fiscal Committee's function

- o Follow-up on specific legislative action - oversight, investigate issues, department operations
- o LFB reports on expenditure data, supplemental appropriation requests, department budget requests, monitor transfer, review revenue estimates

## STRENGTHENING THE BUDGETING AND APPROPRIATION PROCESS

FY 1989 BUDGET AND APPROPRIATIONS TIMELINE  
(beginning Fall, 1987)

BENEFIT TO LEGISLATORS

### GOING AND INTERIM ACTIVITIES (cont'd)

- › LFB staffs subcommittees and provides analysis of appropriation bills during each step of the process; includes tracking reports
- › LFB issues monthly departmental expenditure reports
- › LFB issues monthly and quarterly reports
- › Revenue Estimating Conference meets at least quarterly
- › LFB responds to legislative requests for information; and prepares fiscal notes
- › LFB & Fiscal Committee monitors 8.39 appropriation transfers
- › Expenditure Oversight
- › Policy Oversight
- › Program Evaluation and mandated studies
- › Weekly meetings (bi-weekly during interim) between LFB and Caucus staff to review budget & oversight information

### Suggested Code changes to make during 1988 session:

- Final budget tape to LFB by Oct 1 (change from Nov. 15) Sec. 8.35A(2)
- Revenue Estimating Conference prepares estimate Nov. 15 (change from Dec. 15) Sec. 8.24
- Require DOM to prepare public budget by Dec. 1 (currently required to prepare budget by Dec 1, but it is not required to be public) Sec. 8.25

- o Allow staff to thoroughly analyze requests & therefore allow earlier identification of issues, & earlier distribution of summarized budget information
- o Leadership could begin considering revenue & spending priorities in Nov-Dec & communicate this to members; also would allow DOM to make its budget recommendations using the REC estimate.
- o Departments could respond to DOM budget recommendations rather than presenting a recap of their request at the Governor's hearings.

## APPENDIX A

### EXPENDITURE OVERSIGHT

**Purpose:** To review departmental expenditures on a monthly basis to identify and clarify discrepancies between expected and actual levels of fiscal activity.

**Methodology:** By the 15th of each month the Department of Management will submit a tape to the Fiscal Bureau containing data on all expenditures for the prior month and for the year-to-date. Each analyst will review the information for the departments under their subcommittee to determine if the department is expending funds at a rate which is in line with the monthly budgeted target and the year-to-date target. In addition, the analyst will review the current expenditure level compared to the previous years' level and rate of expenditure. Where unusual levels of expenditure are found (either high or low), the analyst will be able to identify the expenditure category in which the discrepancy lies and then ask the appropriate follow-up questions of the department.

The data generated in these reports should provide information to assist in answering the following types of questions and will be used for follow-up where deemed necessary.

1. Which expenditures look unusual and why?
2. Are salary dollars being expended as anticipated?
3. Are any transfers taking place between line items and why?
4. Does it appear that a supplemental appropriation will be needed for any program and how much?
5. What has caused the overspending? -- e.g., more cases than expected, higher costs of services, etc.
6. Can funds be deappropriated where underspent and how much?
7. What areas should the Fiscal Committee pursue by calling in department staff for a briefing and to answer questions?

**Timetable:** The first report should be generated and ready for Fiscal Committee review in October of 1987. After review, any suggestions for modification will be incorporated. A standardized report will then be generated monthly. The October report will contain information on July, August and September expenditures and each following report will contain information on the prior month and a year-to-date summary.

## APPENDIX B

### POLICY OVERSIGHT

**Purpose:** Monitor and analyze department efforts to achieve established legislative goals and objectives.

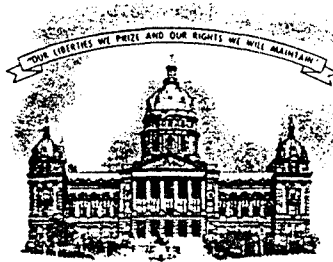
**Methodology:** For all programs and departments which receive appropriations from the General Assembly, the following process is being and will continue to be implemented.

1. Review Code and Administrative Rules to identify goals and objectives for programs and departments.
2. Discuss identified goals and objectives with the Department of Management analyst to determine if there are other goals and objectives which have been identified by that office and incorporate them or note if DOM feels a goal or objective in the Code or Rules is no longer relevant or applicable.
3. Meet with department staff and DOM analyst to review the goals and objectives and determine from the department perspective if the list is complete, or others need to be added, or if some are no longer applicable.
4. Develop potential performance measures for each program or departmental objective by reviewing those currently used by DOM and identifying others as necessary to insure valid measure(s) for each objective. These will be reviewed with DOM and department staff to determine if data on these performance measures is available and if not, whether it can be collected or if other measure(s) may be a reliable substitute. DOM may use some of these measures in its reporting system.
5. Goals and objectives will be presented to appropriation subcommittees during the first six meetings on oversight for review and determination of whether they express legislative intent. If the subcommittee agrees, they may be formally adopted in the minutes or if not, they may be modified to more accurately express the intent. However, where a modification would conflict with existing Code or Rule, legislation would be necessary to insure both legality and department compliance.
6. Final performance measures will be identified and departments will be required to report at least quarterly to the Fiscal Bureau. Analysis of this data could be included quarterly in the reports on expenditures or as a separate distinct report, and will be included in budget documents prepared for the appropriation process. An analysis of the situation will be included if discrepancies exist from expected performance. If serious problems with performance are found, a recommendation for a program evaluation or performance audit may be included.

**Timetable:** The process has been completed for those programs which subcommittees reviewed during the last session and data is currently being collected on the performance measures. LFB staff have begun the process on the remaining departments under each subcommittee and will continue during this interim. The process will likely take two interims to complete as the Fiscal Bureau simultaneously develops expenditure oversight. Those programs and departments for which goals and objectives have been identified will be presented to appropriation subcommittees this session and the remainder the following session.

LFB:1352c:9/09/87

DENNIS C. PROUTY  
DIRECTOR  
515/281-5279



STATE CAPITOL  
DES MOINES, IOWA  
50319

STATE OF IOWA  
LEGISLATIVE FISCAL BUREAU

MEMORANDUM

TO: Senate Majority Leader Hutchins  
Senate Minority Leader Hultman  
Speaker Avenson  
House Majority Leader Arnould  
House Minority Leader Stromer

FROM: Dennis C. Prouty *Dep*

DATE: August 26, 1987

RE: Alternatives to the Current Legislative Budgeting Procedures

At your request, the Legislative Fiscal Bureau has researched and developed alternatives to the current legislative budgeting and appropriation process. The attached document contains three alternatives, each based on different assumptions. As stated in the report, the alternatives are not mutually exclusive. That is, depending on the Legislature's goals, it may be desirable to implement different portions of the three alternatives.

Alternative #1 strengthens the current budgeting and appropriation process. This alternative outlines in detail the procedural changes necessary to strengthen the current process.

Alternative #2 outlines the development of a legislative budget completely separate from the Governor's budget. It is modeled after the legislative budget process in the state of Colorado. This alternative does not reflect the detail that Alternative #1 contains, but more detail could be provided should you decide to pursue this alternative.

Alternative #3 outlines the development of a joint executive branch and legislative branch budget. It is modeled after the budget process in the state of South Carolina. Again, more detail can be provided should you decide to pursue this alternative.

Although this report was prepared by members of the Fiscal Bureau staff, comments and suggestions were received and incorporated into the final report from the following legislative staff members:

Greg Nichols and Mary Gannon, Senate Democrats  
Judy Vinchattle and David Hudson, Senate Republicans  
Mary Fleckenstein, House Democrats  
Joseph O'Hern, Chief Clerk

We look forward to discussing these alternatives with you at the scheduled meeting next Wednesday, September 2, 1987.



## ALTERNATIVES TO THE CURRENT LEGISLATIVE BUDGETING PROCEDURES

At the direction of legislative leadership, the Legislative Fiscal Bureau (LFB) was requested to develop alternatives and/or modifications to the current legislative budgeting and appropriation process.

The following pages reflect three alternatives ranging from modifications to the current process to the development of a "legislative budget". A legislative budget is a budget developed prior to the legislative session and it is developed and considered by the legislature separately from the Governor's budget. These alternatives were developed on the basis of the following analyses:

- A. An analysis and comparison of the current Code requirements concerning the budgeting process and the actual budgeting/appropriations process which has occurred in recent years.
- B. Literature review of other states' budgeting processes with particular emphasis on Colorado, Wisconsin, Texas, and South Carolina. Other state budgeting processes researched included Mississippi and Georgia. Information on other states' budgeting processes is available from the Legislative Fiscal Bureau.
- C. Discussions with key legislators and legislative staff of other states concerning their budgeting process (i.e. NCSL Annual Meeting).
- D. Discussions with Iowa's legislative leadership and staff concerning the problems experienced with the current process and potential solutions to those problems.

Problems identified by legislators and staff members include:

- o Frustration by individual legislators because they have too little decision-making authority regarding individual appropriations; a few people are making the major decisions, usually in the closing hours of the session.
- o Subcommittee chairpersons are frustrated because they feel that their authority is usurped by leadership and staff.

- o Conference committees on appropriation bills add new items to the bill or delete items already agreed to by both chambers.
- o Due to the timing of the current appropriation process, the Governor does not receive the enrolled appropriation bill(s) until after the Legislature adjourns. Therefore, the Legislature is not able to consider any of the Governor's item vetoes during the regular session.
- o Once funds are appropriated by the Legislature, the Executive Branch expends the funds, often with little regard for legislative intent. This problem is exacerbated by the fact that in the past, departmental expenditure information has not been readily available, and legislative intent is often unclear or undefined.
- o Department budget requests are due in the Department of Management (DOM) by September 1 for the following fiscal year, yet some departments ignore this Code requirement. Department requests were not finalized until early January for the 1987 session. This resulted in very little time for staff to analyze the department requests prior to the legislative session.
- o The current system reflects strong Executive Branch control. The Legislature uses the Governor's recommendations as part of its working budget document, this puts the legislature in the role of reacting to the Governor's budget. Budget requests submitted by the departments are often significantly changed by the Governor's Office prior to the "finalization" of the department budget request and the Governor's budget message. In addition, the Governor has item veto authority, the ability to transfer funds without legislative approval, and the power to appoint most department directors. Moreover, DOM has the authority to allocate appropriated funds. This all contributes to the Governor's control of the budgeting process.

It is important to note that the following alternatives are not mutually exclusive. That is, depending on the Legislature's goals, it may be desirable to implement different portions of the three alternatives. During the analysis of the problem and the potential solutions, it became apparent that the Legislature must address the following questions/problems in order to develop a sound, workable solution.

- A. Does the Legislature want to assume a new role in the appropriation process through the development of a legislative budget or is the goal to change the current budgeting process and avoid the problems experienced during the last few sessions, and thereby strengthen the legislature's role in determining how state funds are to be spent. -
- B. Is the goal of the Legislature to strengthen the individual legislators' role in the appropriation process? Can this be done by strengthening the role of appropriation subcommittees? What is the subcommittee role - should it be continued if the Iowa Legislature develops a legislative budget?
- C. How involved do legislators want to be in the budgeting process? A Legislative budget requires the Legislature to make decisions on revenue and expenses which are currently made in the Executive Branch. This shifts the focus of responsibility for budgeting decisions from the Executive Branch to the Legislative Branch. The development of a legislative budget would also require considerable time and effort on the part of the legislators, much of it before session. In addition, the development of a legislative budget would require a number of Code changes involving the Governor's Office, the Department of Management and executive branch agencies.
- D. Should there be one large appropriation bill or a bill for each area. (e.g. Education, Transportation)?
- E. What type of budget information is desired? The current modified base budget and decision package information provided by the Department of Management could be changed, but this would require an extensive development effort by DOM staff and LFB staff. Some other options include, but are not limited to, the following types of budgeting:
  - a. Program budgeting: This approach focuses on goals to be achieved rather than on dollar amounts to be spent. Departments are required to develop a

program budget based upon its particular goals and objectives. Each department also specifies alternative methods for achieving those goals, and for each alternative, cost benefit analysis is utilized to determine the most cost effective method of achieving the desired goals.

- b. Incremental budgeting: The basic assumption of this approach is that the existing base or current level is a proper reflection of funding needs. Incremental increases applied to the various portions of the base is sufficient for continued department or program operation. Increases may be calculated as a percentage increase for specific line items. (i.e. due to inflation, etc.)
  - c. Performance budgeting: This approach measures achievement according to established standards for designated budgeting units. For example, a performance budget for a community development program would indicate how much money was spent to achieve that goal and also how many clients were moved to community residential facilities, and how many such facilities were opened.
- F. What is meant by the term "legislative oversight"? The following are several of the methods available for legislative oversight:
- a. Legislative Intent: Provides specificity in appropriation bills regarding the General Assembly's intended usage of funds and policy goals. Also provides a basis for tracking actual fund expenditures.
  - b. Expenditure Oversight: Utilizes analysis of monthly and year-to-date expenditures by departments to identify potential problems. (See Appendix A for detailed progress report.)
  - c. Policy Oversight: Includes the development of clear goals, objectives and performance measures for departments and programs and analysis to determine if the established goals and objectives are being met. Also may include issue analysis, program evaluation or performance audit where serious problems are identified through review of performance measures. (See Appendix B for detailed progress report.)
  - d. New Program Review: Requires departments to

clearly identify goals, objectives and performance measures for any new program. Executive agencies are required to provide ongoing status reports to the legislature regarding new programs. Departments may not proceed with implementation until the legislature has reviewed and approved each status report.

- e. Administrative Rules Review: Provides an opportunity for the Rules Review Committee to examine proposed department rules to insure conformity with legislative intent. Also, allows the General Assembly to debate and nullify or approve administrative rules that do not reflect legislative intent.
- f. Sunset Legislation: Establishes a fixed date on which a program would terminate. Continuation of the program requires legislative review and action.
- g. Interim and Visitation Committees: Monitors and insures the enactment of legislative intent by following up on specific legislative action affecting departments, facilities or programs. Where legislative intent is not being met, recommendations for corrective action are made.
- h. Transfers and Across the Board Cuts: Requires the Governor to notify the General Assembly or a committee prior to any such action. Could require affirmation by the legislature or committee prior to the action being implemented.
- i. Consideration of Governor's Vetoes: Assures that appropriation bills are enrolled and sent to the Governor at least three days prior to the end of session. This provides the opportunity for the legislature to review any vetoes and take any necessary action.

The following pages reflect three alternatives to the current budgeting process. When reviewing each alternative, it is important to note that other states which have strong legislative involvement in the budgeting process, such as Colorado, Texas, and South Carolina may experience such success because the majority party has been in control of the legislature for many years.

As stated before, depending on the goals of the Iowa Legislature, different portions of the three alternatives could be implemented or adapted to the Iowa legislative environment.

### ALTERNATIVE #1

This alternative assumes that the goal of the Legislature is to strengthen the current budgeting and appropriation process. Through procedural changes, enforcement of current statutory requirements, and increased legislative oversight activities by legislators and staff, many of the problems outlined above can be resolved. Implementation could begin this interim on some of these items, although full implementation could not occur until FY 1990 (1989 session).

The attached six column chart outlines Alternative 1 on a monthly basis beginning with the month of September, which is currently the beginning of the budgeting cycle. The six columns reflect the following:

1. the current process according to the Code of Iowa;
2. the actual process as experienced in the recent legislative session;
3. the alternative to the current process;
4. Code or procedural changes necessary to effect Alternative 1. Procedural changes could mean formal House and Senate rule changes or informal procedural changes made by the caucuses.
5. LFB activity assuming that the corresponding Code or procedural changes are implemented. Activities which could be considered to be largely "legislative oversight" are outlined with a row of number signs (#####) rather than a row of asterisks (\*\*\*\*\*).
6. Implementation date of associated LFB activity assuming the corresponding Code/procedural changes are implemented.

Important points about this alternative which should be considered include:

#### Budget and appropriation process:

- o Enforcement of Sections 8.23 and 8.40, Code of Iowa requiring the Governor to prepare a budget if the department fails to do so. Could enforce or change the current penalty of a fine or removal from office (department director) or impeachment (elected official).
- o Final tape containing all final department requests transmitted to the LFB by October 1 (current Code date is November 15). This would allow for in-depth analysis of the department requests during the months of October through December.

- o Require that the Revenue Estimating Conference prepare an estimate by November 15 (current date is December 15). This would enable leadership to begin considering legislative revenue and spending priorities in December and establish revenue and spending limits for each appropriation subcommittee and Ways & Means committees by February 15. (Code change required)
- o Require the Department of Management to prepare a public budget containing DOM recommendations by December 1. (Code change required). Departments could then respond to this budget in the Governor's public hearings.
- o The LFB prepares an analysis of DOM's budget for the Fiscal Committee and legislators attending the Governor's budget hearings. Included in the analysis is a list of major budget issues facing the legislators in the ensuing legislative session, and a review of projected revenues as determined by the Revenue Estimating Conference.
- o The LFB prepares an analysis of the Governor's budget and makes this available to legislators within one week of the Governor's budget address. The analysis includes an explanation of projected revenues, an explanation of differences between the current year's appropriation, the department request, and the Governor's recommendation.
- o Leadership establishes spending limits and revenue priorities not later than February 15 for each appropriation subcommittee and the Ways & Means committees.
- o Appropriation bills should contain no Code changes & are limited to one subject area. Conference committee may not add new items or delete things already agreed upon by both chambers, unless joint rules are changed.
- o Enrolled appropriation bills sent to the Governor prior to the end of session allowing the Legislature time to consider item vetoes.

Oversight activities:

- o The LFB prepares an analysis of department year-to-date expenditures and presents this analysis monthly to the Fiscal Committee. Data provided in these analyses should assist the committee in answering the following questions:
  1. Which expenditures look unusual and why?
  2. Are salary dollars being expended as anticipated?
  3. Are any transfers taking place between line items and why?

4. Does it appear that a supplemental appropriation will be needed for any program and if so, how much?
  5. What has caused the overspending? -- e.g., more cases than expected, higher costs of services, etc.
  6. What are the anticipated reversion amounts? Can funds be deappropriated where under budget and if so, how much?
  7. What areas should the Fiscal Committee pursue by calling in department staff for a briefing and to answer questions?
  8. Are the departments meeting legislative intent? Note any difference between the level of expenditure and what the subcommittee intended or expected during the session.
- o More frequent meetings of the Legislative Fiscal Committee to review budget and policy matters in state departments.
  - o Utilize the Visitation Committee process and the subcommittee process as an oversight tool in an effort to strengthen the legislature's ability to effectively appropriate state funds and monitor the expenditure of those funds.
  - o Frequent meetings during the session between LFB staff, appropriate legislative staff, and legislators to discuss appropriation issues, review department spending plans, review actual department expenditures, and to plan visitations for the interim.
  - o Increased use and documentation of intent language, either in committee minutes, resolutions or in appropriation bills to facilitate LFB analysis of a department's achievement of legislative goals. LFB staff should review subcommittee minutes prior to the chairpersons' final approval and distribution to assure that legislative intent has been clearly stated. Amendments to appropriation bills could contain statements of legislative intent.
  - o Weekly meetings during the session and bi-weekly meetings during the interim months between members of the LFB staff and members of the caucus staff. The purpose of the meetings would be 1) to review oversight information and provide updates on departmental budget activities (LFB staff to caucus staff), and 2) discuss other related legislative issues (caucus staff to LFB staff and vice versa). Oversight information includes the review of actual departmental expenditures, analysis of deviations from expected levels of expenditure, anticipated supplemental appropriation needs, and anticipated reversions.



- o Continue the policy oversight activities initiated during the 1987 session which includes the identification of goals and objectives for programs and departments and the development of performance measures for each identified objective. The first three weeks of appropriation subcommittee meetings could be used to review interim oversight activities and to review department operations in accordance with legislative intent.
- o Strengthen the legislative review and approval over appropriation transfers. Require that the LFB be notified at the same time the appropriations chairpersons are notified of a transfer. Could limit transfer authority by requiring approval of a legislative committee prior to any transfer (Code change required).

CURRENT IOWA APPROPRIATION PROCESS & ALTERNATIVE 1  
(Summary\*)

SEPTEMBER

CURRENT PROCESS ACCORDING TO CODE	ACTUAL PROCESS BASED ON 1987 SESSION	ALTERNATIVE 1 PROCEDURAL CHANGES	CODE/PROCEDURE CHANGE	LFB ACTIVITY ASSUMING CODE/PROCEDURE CHANGE	IMPLEMENTED 88 89
***** * SEPTEMBER 1 * * Dept. of Management * * (DOM) Receives * * Department Requests * * -75% base budgeting * * -Must include per- * * formance measures * * Code 8.23 * *****	***** * SEPTEMBER 1 * * Few Departments sub- * * mit budgets by this * * date - For FY 1988 * * LFB received 5 of 36 * * by 11/17 & 31 of 36 * * by 12/29 * *****	***** * SEPTEMBER 1 * * Enforce 8.23 & 8.40 * * of the Code - 8.23 * * requires budget to * * be prepared if a * * Dept. fails to do * * so & 8.40 penalty of * * removal or impeach * *****	***** * Encouragement by the * * Fiscal Committee for * * DOM to enforce the * * Code - Full compli- * * ance may not occur * * until 1989 Session * *****		
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***** * Hard copy of Dept. * * request to LFB * * Code 8.35A(4) * *****	***** * Hard copy of Dept. * * request only after * * DOM approves * *****	***** * Hard copy of Dept. * * request to LFB also * * by Oct. 1 * *****	***** * Code change required * * Change not until the * * 1989 Session * *****	***** * Review hard copies * * and verify with * * final data tape * *****	? Y
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## OCTOBER/NOVEMBER

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*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
* SEPT. 1 - NOV. 15 *	* SEPT. 1 - NOV. 15 *	* OCTOBER 1	* Code change required*	* LFB begins analysis *					
* DOM transfers weekly*	* LFB received weekly *	* DOM transfers final *	* Change could not oc-	* of final Department *					
* tapes to LFB with *	* tapes starting mid-	* tape to LFB with *	* cur until the 1989 *	* budget requests *	N	Y			
* finalized Dept. *	* November due to no *	* Dept. requests *	* session *	* *					
* requests *	* available informa-	* *	* *	* *					
*Code 8.35A(2) *	* tion *	* *	* *	* *					
*****	*****	*****	*****	*****					
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\* a more detailed version of this chart (outlining monthly LFB activities) is available from the LFB

# OCTOBER/NOVEMBER (CONT'D)

CURRENT PROCESS ACCORDING TO CODE	ACTUAL PROCESS BASED ON 1987 SESSION	ALTERNATIVE 1 PROCEDURAL CHANGES	CODE/PROCEDURE CHANGE	LFB ACTIVITY ASSUMING CODE/PROCEDURE CHANGE	IMPLEM 88 89
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I	I	I	I	##### # Fiscal Committee # # meets-OCT & NOV # # Visitation Comm. # # meet- OCT & NOV # # Mandated studies # # (LFB) are prepared # # & interim # # committees meet # #####	Y Y V Y Y Y
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I	I	I	I	I	
I	I	I	I	I	
I	I	I	I	I	
***** * OCTOBER 1 * * DOM prepares esti- * * mate of revenues * * (not released to * * Legislature) * * Code 8.24 * *****	***** * OCTOBER 1 * * DOM prepares esti- * * mate of revenues * * (not released to * * Legislature) * * Code 8.24 * *****	***** * NOVEMBER 15 * * Revenue Estimating * * Conference(REC) pre- * * pares an estimate * * * *****	***** * Code change required* * Change could not oc- * * cur until the 1989 * * session * * * *****	***** * Revenue Estimating * * Conference issues * * an estimate Nov 15 * * * *****	N Y
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I	I	I	I	I	
***** * NOVEMBER 1 * * DOM is to provide * * LFB a total record * * of expenditures * * transfers & * * reversions for the * * prior year appro- * * priations * * Code 8.35A(1) * *****	I	I	I	I	
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I	I	I	I	I	
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## DECEMBER

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***** * DECEMBER 1 * * DOM prepares a ten- * * tative budget for * * the Governor * * Code 8.25 * *****	***** * DECEMBER 1 * * DOM suggests changes * * to a Dept. prior * * to finalization of a * * Department budget * *****	***** * DECEMBER 1 * * DOM prepares a * * public budget. * * * *****	***** * Code change required* * Change could not oc- * * cur until the 1989 * * Session * * * *****	***** * LFB analyzes DOM * * budget and summar- * * izes for Legislators * * attending Governor's * * budget hearings. * * Analysis also pre- * * sented to Fiscal * * Committee * *****	N Y
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## DECEMBER (CONT'D)

[illegible]

DECEMBER (CONT'D)

CURRENT PROCESS  
ACCORDING TO CODE

ACTUAL PROCESS  
BASED ON 1987 SESSION

ALTERNATIVE 1  
PROCEDURAL CHANGES

CODE/PROCEDURE CHANGE

LFB ACTIVITY ASSUMING  
CODE/PROCEDURE CHANGE

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\* DECEMBER 15 \*  
\* Fiscal Committee \*  
\* meets and reviews \*  
\* LFB budget forms \*  
\* containing the Dept \*  
\* requests \*  
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\* No Code change is \*  
\* necessary - However, \*  
\* the content of this \*  
\* budget document de- \*  
\* pends upon the \*  
\* number of Dept. \*  
\* which have sub- \*  
\* mitted requests \*  
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JANUARY

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\* JANUARY 1 \*  
\* Governor recommenda- \*  
\* tions are to be sub- \*  
\* mitted to LFB by \*  
\* Jan. 1 or no later \*  
\* than the budget goes \*  
\* to print \*  
\* Code 8.35A \*  
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\* Final tape was re- \*  
\* ceived January 12 \*  
\* when the Governor's \*  
\* budget went to print \*  
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\* LFB prepares the \*  
\* final budget forms \*  
\* to be used by sub- \*  
\* committees contain- \*  
\* ing the Department \*  
\* requests and the \*  
\* Governor's recommen- \*  
\* dation \*  
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\* JANUARY 14 \*  
\* DOM transmits report \*  
\* of standing appro- \*  
\* priations to the \*  
\* Legislature on the \*  
\* first day of ses- \*  
\* sion \*  
\* Code 8.6(2) \*  
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\* DOM transmitted \*  
\* a report on the \*  
\* first day of session \*  
\* January 12, this \*  
\* report only contain- \*  
\* ed previous year's \*  
\* standings \*  
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\* JANUARY 14 \*  
\* DOM standing report \*  
\* would also include \*  
\* projections of an- \*  
\* cipated increases - \*  
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\* Code change required \*  
\* to provide for pro- \*  
\* jections - Change \*  
\* could not occur un- \*  
\* til 1989 session \*  
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JANUARY (CONT'D)

CURRENT PROCESS ACCORDING TO CODE	ACTUAL PROCESS BASED ON 1987 SESSION	ALTERNATIVE 1 PROCEDURAL CHANGES	CODE/PROCEDURE CHANGE	LFB ACTIVITY ASSUMING CODE/PROCEDURE CHANGE	IMPLEM 88 89
I	I	I	I	I	
***** * BY FEBRUARY 1 * * Governor must trans- * mit by Feb 1 pro- * posed budget to the * Legislature with * drafts of appropri- * ation bills * Code 8.21 & 8.22 *****	***** * Governor gave budget* * message January 22 - * Drafts of appropria- * tion bills did not * accompany budget - * Some appropriation * bills not received * until April - *****	I I I I I	I I I I I	***** * LFB provides analy- * sis of the Gov's * budget within 1 week* * of the Governor's * budget message. * Analysis incl: an * explanation of proj. * revenues, expl. of * differences between * Current yr. Dept. * Reqt. & Gov Recomm. *****	
I	I	I	I	I	
I	I	I	I	I	
I	I	I	I	I	
***** * Joint appropriation * * subcommittees review* * budget using LFB * forms & budget hear- * ings *****	***** * Joint appropriation * * subcommittees hear- * ings end of Jan. un- * til 3rd week of Feb.* * Bill held until Apr.* *****	***** * Appropriation sub- * committees meet for * 6-7 weeks. The first * three weeks is re- * view of dept. oper- * ations in accordance * with legislative in- * tent. *****	***** * No code change is * required ***** I I I	***** * LFB organizes and * staffs the subcom- * mittee meetings - LFB* * provides budget * forms, budget * analysis, & over- * sight inform. to * committee members *****	
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FEBRUARY

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***** * Joint appropriation * * subcommittees review* * budget using LFB * forms & budget hear- * ings *****		***** * Leadership estab- * lishes spending lim- * its & revenue pri- * orities not later * than February 15 for * each appropriations * subcommittee and * Ways & Means Comm *****			
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## FEBRUARY (CONT'D)

CURRENT PROCESS ACCORDING TO CODE	ACTUAL PROCESS BASED ON 1987 SESSION	ALTERNATIVE I PROCEDURAL CHANGES	CODE/PROCEDURE CHANGE	LFB ACTIVITY ASSUMING CODE/PROCEDURE CHANGE	IMPLEM 88 89
I	I	I  ***** * Subcommittees spend * * three weeks           * * reviewing dept.         * * budgets - may          * * include budget         * * hearings                * *****	I  	I  ***** * LFB provides              * * analysis and summary*     Y Y * of appropriation         * * bills during each        * * step of the process     * * -includes preparing     * * tracking reports &        * * bill summaries            * *****	
I	I				
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MARCH/APRIL					
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* Full appropriation *	* Full appropriation *	* Appropriation bills *	* No code change is *	* LFB continues to *	
* committee decisions *	* committee decisions *	* can contain no Code *	* required           *	* provide analysis & *	Y Y
*	*	* changes & are limit-	*	* summary of the con- *	
I	I	* ed to one subject *	I	* tent of approp.     *	
		* area (i.e., Educa- *		* bills during each    *	
I	I	* tion)                *		* step of the process *	
		*****		* includes tracking    *	
		I	I	* report & bill summ. *	
I	I	I	I	*****	
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I	I	I	I	I	
* Floor action *	* Floor action *	I	I	I	
*	*				
I	I	I	I	I	
I	I	I	I	I	
I	I	I	I	I	
* Full appropriation *	* Full appropriation *	I	I	I	
* & floor action other*	* & floor action other*	I	I	I	
* chamber *	* chamber *	I	I	I	
*****	*****	I	I	I	
I	I	I	I	I	
I	I	I	I	I	
I	I	I	I	I	
* Concur or further *	* Concur or further *	I	I	I	
* floor action in both*	* floor action in both*	I	I	I	
* chambers *	* chambers *				
* Joint Rule 12 *	* Joint Rule 12 *				
*****	*****				
I	I	I	I	I	

MARCH/APRIL (CONT'D)

CURRENT PROCESS ACCORDING TO CODE	ACTUAL PROCESS BASED ON 1987 SESSION	ALTERNATIVE 1 PROCEDURAL CHANGES	CODE/PROCEDURE CHANGE	LFB ACTIVITY ASSUMING CODE/PROCEDURE CHANGE	IMPLEMENTED 88 89
I I ***** * If differences still * exist between cham- * bers bill goes to * conference commit- * tee of 10 members - * (5 House & 5 Senate * with 3 majority & * 2 minority each) * Joint Rule 13 *****	I I ***** * 1 Conference Commit- * tee discussed both * major appropriation * bills, leaving the * 6 majority members * making most approp. * decisions - Major * changes from subcom- * mittee were made *****	I ***** * First Conf Committee * can only consider * differences - Can't * add new items or * delete things al- * ready agreed upon by * both chambers *****	I ***** * No Code change is * required *****	I ***** * LFB provides report * of differences * between House & * Senate & staffs * Conference Comm * *****	Y Y
I I ***** * If conference comm- * mittee fails to * reach agreement an- * other is appointed - * If agreement is * reached then non- * amendable report * must pass both * chambers * Joint Rule 13 *****	I I ***** * Conference Committee * report May 9, final * action last day of * regular session * May 10 - * item veto and signs * 30 days later on * June 9 - *****	I I ***** ***** ***** ***** ***** ***** *****	I I ***** ***** ***** ***** ***** ***** *****	I I ***** ***** ***** ***** ***** ***** *****	
I I ***** * Bill is enrolled * and sent to the * Governor - Article * III, Section 16 of * the Iowa Const. says * Governor has 3 days * sign a bill into law * except bills passed * final 3 days of ses- * ion, then it is 30 * Joint Rule 14-16 *****	I I ***** * Governor item veto * and signs 30 days * later on June 9 - *****	I ***** * Enrolled bill sent * to the Governor * prior to the end * of session for * reconsideration of * any item vetoes. *****	I ***** * No Code change is * required. Could be * done informally or * incorporated into * rules *****	I ***** * Finalize bill * summaries & * tracking reports *****	Y Y
I I ***** *****	I I ***** *****	I ***** *****	I ***** *****	I ***** *****	



MAY/JUNE

CURRENT PROCESS ACCORDING TO CODE	ACTUAL PROCESS BASED ON 1987 SESSION	ALTERNATIVE 1 PROCEDURAL CHANGES	CODE/PROCEDURE CHANGE	LFB ACTIVITY ASSUMING CODE/PROCEDURE CHANGE	IMPLEM 88 89
I	I	I	I	***** * LFB issues a * * final appropri- * * ations tracking * * report and begins * * work on Annual * * Fiscal Report * *****	
I	I	I	I	* Issues a summary * * of the Governor's * * item vetoes * *****	Y Y
I	I	I	I	I I *****	
I	I	I	I	* Fiscal Committee * * meets * * Approves Visita- * * Committees * * LFB presents brief * * appropriations * * report. * *****	Y Y
I	I	I	I	I I *****	
I	I	I	I	* Legislative Council * * appoints mandated * * studies * *****	Y Y
I	I	I	I	I I *****	
I	I	I	I	* Begin tracking * * legislative intent * * in bills, minutes * * etc. * *****	Y Y
I	I	I	I	*****	

JULY/AUGUST

CURRENT PROCESS ACCORDING TO CODE	ACTUAL PROCESS BASED ON 1987 SESSION	ALTERNATIVE 1 PROCEDURAL CHANGES	CODE/PROCEDURE CHANGE	LFB ACTIVITY ASSUMING CODE/PROCEDURE CHANGE	IMPLEM 88 89
I	I	I	I	***** * Issues Annual * * Fiscal Report * *****	Y Y
I	I	I	I	I I *****	
I	I	I	I	# Fiscal Committee # # meets-JUL & AUG # # Visitation Comm. # # meet- JUL & AUG # # Mandated studies # # (LFB) are prepared # # & interim # # committees meet # *****	Y Y Y Y Y Y
I	I	I	I	I I *****	
***** * JULY 1 * * DOM is to provide * * an expected expen- * * diture breakdown * * for each appropria- * * tion * * Code 8.35A(1) * *****	***** * JULY 1 * * DOM provided a * * breakdown of these * * expenditures * *****	***** * LFB provides great * * er analysis of ex- * * penditures to in- * * terim Legislative * * committees and * * staff. This in- * * creased oversight * * facilitated by in- * * creased expression * * & documentation of * * legislative intent * *****	***** * No Code change is * * required * *****	***** # Review DOM breakdown# # of salary adjust- # # ment dollars & # # other appropriated # # dollars # ***** I	Y Y
I I I	I I I	I I I	I I I	ONGOING ACTIVITIES NOT LISTED ABOVE:  - Monthly Departmental Expenditure Reports - Monthly Special Tax Receipts Report - Qrtly General Fund report - Quarterly Iowa Plan Report - Frequent mtgs with LFB staff & appropriate legis. staff & legislators re: approp. and oversight (during session) - Weekly meetings between LFB & Caucus staff to review budget & oversight info (bi-weekly during interim) - Revenue Estimating - Legislative Requests for information - Policy Oversight - Expenditure Oversight - Program Evaluation & mandated studies - Monitoring 8.39 appropriation transfers - Fiscal Notes	
- DOM has broad transfer authority under Code 8.39		- Limit transfer authority by requiring approval of legislative committee			
- Governor may transmit supplemental estimates/ recommendation at any time (Code 8.28)		- Require DOM to notify LFB of 8.39 transfers at same time approp. chairs & subcomm chairs are notified.			
- Governor may make across the board reductions (Code 8.31)		- Increase use & docum. of intent language to facilitate LFB analysis of Dept. achievement of legislative goals			
		- Increase two way com- munication between LFB, legislative leadership, & all caucus staff re: oversight activities, visitations. & leadership priorities.			
		- Expand the use of Fiscal & Visitation Committees			

## ALTERNATIVE #2

Alternative #2 assumes that the goal of the Legislature is to strengthen the budgeting and appropriation process by developing a legislative budget, completely separate from the Governor's budget recommendations. Through procedural changes, statutory changes, and increased legislative oversight activities by legislators and staff, many of the problems outlined above can be resolved. Procedural changes could be implemented this session. Full implementation requires statutory changes, but could occur by FY 1990 (1989 session).

This alternative outlines the legislative budget process in the State of Colorado. The Colorado Legislature has had a legislative budget committee, called the Joint Budget Committee (JBC), since 1960. The Joint Budget Committee is composed of six members; three senators and three representatives. This process of legislative budgeting has shifted the focus of budgetary responsibility from the Governor to the Legislature.

The first column of the attached budget summary outlines the process in Colorado. The second column lists comments about how the budget process operates. The third column lists other potential options for various aspects of the alternative, and the fourth column reflects the LFB activities under this alternative scenario.

Important points about this alternative which should be considered include:

### Budget and appropriation process:

- o Require (and enforce) the departments to submit budget requests to the Legislative Fiscal Bureau.
- o A Joint Budget Committee (JBC) consisting of members of both chambers and both parties would meet during November and December to consider budget requests (and/or Ways & Means issues) and set budget guidelines for the LFB to draft a budget from. In Iowa, the Fiscal Committee could serve the same function as the JBC.
- o The LFB would prepare a document containing budget recommendations (using JBC guidelines) including the identification of base budget and needed inflationary increases & new programs. (January 1 thru January 15)
- o The JBC would review the LFB recommendations and draft their budget and submit their recommendations to the Legislature by January 15. The JBC budget in Colorado goes directly to

the appropriation committee. An option would be to send the budget through the subcommittee process or send the budget directly to the floor for debate.

- o One option to this alternative would be to repeal the Code language requiring the Governor to prepare a state budget. (In Colorado, the Governor does prepare a budget, but it is not considered by the legislature.)
- o The JBC would be the committee responsible for legislative oversight.

Oversight activities:

(See the list under Alternative #1)

# ALTERNATIVE 2 LEGISLATIVE BUDGET MODELED AFTER COLORADO

## ALTERNATIVE 2 LEGISLATIVE BUDGET

## COMMENTS

## OPTIONS

## LFB ACTIVITY

\*\*\*\*\*  
\* NOVEMBER 1 \*  
\* Department requests \*  
\* are submitted to the \*  
\* Joint Budget Commit- \*  
\* tee (JBC) and the \*  
\* Governor \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* NOV. 1 - JAN. 1 \*  
\* The JBC meets 3-4 \*  
\* days per week for \*  
\* budget hearings with \*  
\* Departments \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* JANUARY 15 \*  
\* The LFB budget staff \*  
\* make recommendations \*  
\* to the JBC concern- \*  
\* ing appropriations \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* JANUARY 15 \*  
\* JBC reviews and mod- \*  
\* ifies the staff rec- \*  
\* ommendations and \*  
\* creates JBC budget \*  
\*\*\*\*\*

\*\*\*\*\*  
\* The JBC, by statute, \*  
\* approves the forms \*  
\* which the Depart- \*  
\* ments use in prepar- \*  
\* ing their requests \*  
\* \*  
\*\*\*\*\*

I  
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\*\*\*\*\*  
\* The JBC is a six \*  
\* member committee \*  
\* of 3 Senate (2 maj- \*  
\* ority & 1 minority) \*  
\* & 3 House members \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* The JBC decides on \*  
\* the budget guide- \*  
\* lines to be used by \*  
\* staff members to \*  
\* make recommendations \*  
\*\*\*\*\*

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\* The JBC budget is \*  
\* drafted into bill \*  
\* form \*  
\* \*  
\*\*\*\*\*

\*\*\*\*\*  
\* The JBC requests \*  
\* could be submitted \*  
\* by October 1 \*  
\* \*  
\* \*  
\*\*\*\*\*

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\* The JBC could be \*  
\* composed of members \*  
\* considering both ap- \*  
\* propriations and \*  
\* revenues \*  
\*\*\*\*\*

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\* A Revenue Estimating \*  
\* Conference could set \*  
\* the revenue amount \*  
\* to be used in the \*  
\* JBC guidelines \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* The JBC budget could \*  
\* include revenue \*  
\* measures \*  
\* \*  
\*\*\*\*\*

\*\*\*\*\*  
\* LFB begins analysis \*  
\* of final Department \*  
\* requests. Provides \*  
\* analysis to the JBC \*  
\* \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* The LFB organizes & \*  
\* staffs the budget \*  
\* hearings. LFB pro- \*  
\* vides budget forms & \*  
\* budget analysis \*  
\*\*\*\*\*

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\* LFB works from the \*  
\* JBC guidelines to \*  
\* develop budget rec- \*  
\* ommendations \*  
\* \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* LFB presents budget \*  
\* recommendations to \*  
\* the JBC \*  
\* \*  
\*\*\*\*\*

# ALTERNATIVE 2 LEGISLATIVE BUDGET

## COMMENTS

## OPTIONS

## LFB ACTIVITY

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\* The JBC budget bill \*  
\* is introduced to \*  
\* the Appropriations \*  
\* Committee (either \*  
\* House or Senate) \*  
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\*\*\*\*\*  
\* Bill goes to the \*  
\* floor for debate \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* If differences exist\*  
\* then the bill goes \*  
\* to Conference Com- \*  
\* mittee \*  
\*\*\*\*\*

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\* Full appropriation \*  
\* and floor action to \*  
\* take place in time \*  
\* consider any item \*  
\* vetoes \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* Appropriations Com- \*  
\* mittee process is \*  
\* only a 5 minute \*  
\* "stamp of approval" \*  
\* process \*  
\*\*\*\*\*

I  
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\*\*\*\*\*  
\* Bill goes through \*  
\* each House only once\*  
\*\*\*\*\*

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\*\*\*\*\*  
\* The conference com- \*  
\* mittee exists of the\*  
\* JBC members only \*  
\* \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* The JBC bill could \*  
\* be split up and go \*  
\* to individual sub- \*  
\* committees \*  
\* \*  
\*\*\*\*\*

I  
I  
I  
\*\*\*\*\*  
\* Bill can go through \*  
\* each House twice \*  
\*\*\*\*\*

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I  
I  
\*\*\*\*\*  
\* The conference com- \*  
\* mittee exists of \*  
\* those appointed by \*  
\* leadership \*  
\*\*\*\*\*

I  
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\*\*\*\*\*  
\* LFB provides summary\*  
\* and analysis of the \*  
\* appropriation bills \*  
\* at each step of the \*  
\* process \*  
\*\*\*\*\*

## ONGOING ACTIVITIES NOT LISTED ABOVE:

- Monthly Departmental Expenditure Reports
- Monthly Special Tax Receipts Report
- Quarterly General Fund Report
- Quarterly Iowa Plan Report
- Weekly meetings between LFB & Caucus staff to review budget & oversight info (bi-weekly during the interim)
- Frequent meetings with LFB staff, appropriated legislative staff, & legislators re: appropriations & oversight (during session)
- Revenue Estimating
- Legislative Requests for information
- Policy Oversight
- Expenditure Oversight
- Program Evaluation & mandated studies
- Monitoring 8.39 transfers
- Fiscal Notes

### ALTERNATIVE #3

Alternative #3 assumes that the goal of the Legislature is to strengthen the budgeting and appropriation process by developing a joint Legislative and Executive branch budget. Through procedural changes, statutory changes and increased legislative oversight activities by legislators and staff, many of the problems outlined above can be resolved. Full implementation requires statutory changes but could occur by FY 1990 (1989 session).

This alternative outlines the development of the joint legislative and executive branch budget in South Carolina. The South Carolina Budget and Control Board (BCB) evolved from a 1933 commission. The membership includes two members of the legislature and three members of the executive branch. The legislature has traditionally been very strong in South Carolina and the legislative members of the Budget Control Board have a great deal of influence.

The first column of the attached budget summary outlines the process in South Carolina. The second column lists comments about how the budget process operates. The third column lists other potential options for various aspects of the alternative, and the fourth column reflects the LFB activities under this alternative scenario.

Important points about this alternative which should be considered include:

#### Budget and appropriation process:

- o A Budget Control Bureau (BCB) consisting of 2 members of the legislature, the treasurer (elected), the state comptroller (elected), and the Governor begins to meet and consider revenues and budget guidelines in June.
- o Require (and enforce) the departments to submit budget requests to the Legislative Fiscal Bureau.
- o The Budget Control Board makes recommended budget allocations to each Department by October 15. The Department then submits a detailed budget for that allocation, by November 1, back to the Budget Control Board.
- o The Budget Control Board finalizes recommendations during December and submits final recommendations to the Legislature by January 15.
- o In South Carolina, the budget bill is first considered by

the House Ways and Means Committee and once passed by the House, it is considered by the Senate Finance Committee. In Iowa, an option would be to send the budget bill through the subcommittee process.

- o A joint legislative and executive branch budget would require the repeal of the Code language requiring the Governor to prepare a budget.

Oversight activities:

(See the list under Alternative #1)



# ALTERNATIVE 3 JOINT BUDGET MODELED AFTER SOUTH CAROLINA

## ALTERNATIVE 3 JOINT BUDGET

## COMMENTS

## OPTIONS

## LFB ACTIVITY

\*\*\*\*\*  
\* JUNE 1 \*  
\* The Revenue Estimat- \*  
\* ing Committee sub- \*  
\* mits a preliminary \*  
\* revenue estimate to \*  
\* the Budget Control \*  
\* Board (BCB) for con- \*  
\* sideration \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* JUNE 15 \*  
\* The BCB holds a \*  
\* meeting of Depart- \*  
\* ment dir. to give \*  
\* budget preparation \*  
\* instructions \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* AUGUST 15 \*  
\* Departments must \*  
\* submit budgets to \*  
\* the BCB for review \*  
\* and analysis \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* The BCB is a joint \*  
\* budgeting committee \*  
\* composed of: House \*  
\* Ways & Means Chair, \*  
\* Senate Finance \*  
\* Chair, Governor, \*  
\* Treasurer (elected), \*  
\* & Comptroller (elec) \*  
\*\*\*\*\*

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\* The BCB discusses \*  
\* the revenue projec- \*  
\* tions with the De- \*  
\* partment directors \*  
\* \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* Departments submit \*  
\* budgets on BCB forms \*  
\* \*  
\* \*  
\*\*\*\*\*

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\* The BCB could be \*  
\* made up of 5 mem- \*  
\* bers appointed by \*  
\* Legislature and 5 \*  
\* members appointed by \*  
\* Executive Council \*  
\* \*  
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\* The BCB could pro- \*  
\* vide preliminary \*  
\* budget ceilings for \*  
\* each Department \*  
\* \*  
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\* This date could be \*  
\* moved. \*  
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\* \*  
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\* LFB revenue project- \*  
\* ion team prepares \*  
\* report (ongoing pro- \*  
\* ject) \*  
\* \*  
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\* The LFB organizes & \*  
\* staffs the meetings \*  
\* with the Department \*  
\* dir. and develops \*  
\* budget instructions \*  
\* \*  
\*\*\*\*\*

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\* LFB works with the \*  
\* BCB to analyze and \*  
\* review the Depart- \*  
\* ment budgets \*  
\* \*  
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ALTERN. E 3  
JOINT BUDGET

COMMENTS

OPTIONS

LFB ACTIVITY

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\*\*\*\*\*  
\* AUG. 15 - SEPT. 1 \*  
\* The BCB holds open \*  
\* budget hearings \*  
\*\*\*\*\*

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\* OCTOBER 1 \*  
\* The official reve- \*  
\* nue projection is \*  
\* made by the Revenue \*  
\* Estimating Comm. \*  
\*\*\*\*\*

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\* OCTOBER 15 \*  
\* The BCB issues the \*  
\* allocations to each \*  
\* Department \*  
\*\*\*\*\*

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\* NOVEMBER 1 \*  
\* The Departments have \*  
\* to submit detailed \*  
\* itemized budgets \*  
\* based upon the BCB \*  
\* allocations \*  
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\*\*\*\*\*  
\* The BCB by law has \*  
\* until November 1 to \*  
\* complete hearings \*  
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\* The BCB holds closed \*  
\* meetings at this \*  
\* time discussing the \*  
\* allocations to De- \*  
\* partments \*  
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\* These pre-legisla- \*  
\* tive ceilings are \*  
\* similar to the Gov. \*  
\* initial budget \*  
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\* The BCB reviews \*  
\* these budgets for \*  
\* accuracy and sends \*  
\* them to the publish- \*  
\* er by December 1 \*  
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\* LFB could make bud- \*  
\* get recommendations \*  
\* & Dept. responds \*  
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\* The BCB could con- \*  
\* sider both revenue \*  
\* and appropriation \*  
\* bills \*  
\*\*\*\*\*

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\* These time frames \*  
\* could be changed \*  
\* \*  
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\* The BCB could hold \*  
\* another set of hear- \*  
\* ings to allow De- \*  
\* partments to respond \*  
\* to the allocations \*  
\*\*\*\*\*

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\* LFB organizes and \*  
\* staffs the the bud- \*  
\* get hearings \*  
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\* LFB provides summary \*  
\* and analysis of the \*  
\* revenue projections \*  
\* \*  
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\* The LFB helps de- \*  
\* velop the alloca- \*  
\* tions to each De- \*  
\* partment \*  
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\* The LFB analyzes \*  
\* the Department bud- \*  
\* gets for compliance \*  
\* with the BCB allo- \*  
\* cations \*  
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# ALTERNATIVE 3 JOINT BUDGET

## COMMENTS

## OPTIONS

## LFB ACTIVITY

\*\*\*\*\*  
\* JANUARY 15 \*  
\* The BCB presents \*  
\* copies of the budget\*  
\* to the Legislature \*  
\*\*\*\*\*

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\* The House Ways and \*  
\* Means Committee be- \*  
\* gins the appropria- \*  
\* tion process and de- \*  
\* bates the bill \*  
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\*\*\*\*\*  
\* Bill goes to the \*  
\* floor for debate \*  
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\* If differences exist\*  
\* then the bill goes \*  
\* to Conference Com- \*  
\* mittee \*  
\*\*\*\*\*

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\* Final floor action \*  
\*\*\*\*\*

\*\*\*\*\*  
\* The BCB budget is \*  
\* drafted into an \*  
\* appropriation bill \*  
\* \*  
\*\*\*\*\*

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\* The House Ways and \*  
\* Means and the Senate\*  
\* Finance Committees \*  
\* consider both appro- \*  
\* priations & revenues\*  
\*\*\*\*\*

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\* Bill can go through \*  
\* each Chamber twice \*  
\*\*\*\*\*

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\* 1st Conference com- \*  
\* mittee can only ad- \*  
\* dress differences \*  
\* \*  
\*\*\*\*\*

- The BCB has the power to  
make across the board cuts  
in the case of projected  
budget deficit

\*\*\*\*\*  
\* The BCB budget could\*  
\* include revenue \*  
\* measures \*  
\* \*  
\*\*\*\*\*

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\* The BCB bill could \*  
\* be divided and sent \*  
\* to individual sub- \*  
\* committees \*  
\* \*  
\*\*\*\*\*

\*\*\*\*\*  
\* LFB helps prepare \*  
\* the final budget \*  
\* document \*  
\* \*  
\*\*\*\*\*

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\*\*\*\*\*  
\* LFB organizes and \*  
\* staffs the meetings \*  
\* and provides budget \*  
\* forms and analysis \*  
\* \*  
\*\*\*\*\*

## ONGOING ACTIVITIES

### NOT LISTED ABOVE:

- Monthly Departmental Expenditure Reports
- Monthly Special Tax Receipts Report
- Qrtly General Fund Report
- Quarterly Iowa Plan Report
- Weekly meeting between LFB & Caucus staff to review budget & oversight info (bi-weekly during interim)
- Frequent meetings with LFB staff, appropriate legis. staff & legislators re: approp & oversight
- Revenue Estimating
- Legislative Requests for information
- Policy Oversight
- Expenditure Oversight
- Program Evaluation & mandated studies
- Monitoring 8.39 transfers
- Fiscal Notes

## APPENDIX A

### EXPENDITURE OVERSIGHT

**Purpose:** To review departmental expenditures on a monthly basis to identify and clarify discrepancies between expected and actual levels of fiscal activity.

**Methodology:** By the 15th of each month the Department of Management will submit a tape to the Fiscal Bureau containing data on all expenditures for the prior month and for the year-to-date. Each analyst will review the information for the departments under their subcommittee to determine if the department is expending funds at a rate which is in line with the monthly budgeted target and the year-to-date target. In addition, the analyst will review the current expenditure level compared to the previous years' level and rate of expenditure. Where unusual levels of expenditure are found (either high or low), the analyst will be able to identify the expenditure category in which the discrepancy lies and then ask the appropriate follow-up questions of the department.

The data generated in these reports should provide information to assist in answering the following types of questions and will be used for follow-up where deemed necessary.

1. Which expenditures look unusual and why?
2. Are salary dollars being expended as anticipated?
3. Are any transfers taking place between line items and why?
4. Does it appear that a supplemental appropriation will be needed for any program and how much?
5. What has caused the overspending? -- e.g., more cases than expected, higher costs of services, etc.
6. Can funds be deappropriated where underspent and how much?
7. What areas should the Fiscal Committee pursue by calling in department staff for a briefing and to answer questions?

**Timetable:** The first report should be generated and ready for Fiscal Committee review in October of 1987. After review, any suggestions for modification will be incorporated. A standardized report will then be generated monthly. The October report will contain information on July, August and September expenditures and each following report will contain information on the prior month and a year-to-date summary.

## APPENDIX B

### POLICY OVERSIGHT

**Purpose:** Monitor and analyze department efforts to achieve established legislative goals and objectives.

**Methodology:** For all programs and departments which receive appropriations from the General Assembly, the following process is being and will continue to be implemented.

1. Review Code and Administrative Rules to identify goals and objectives for programs and departments.
2. Discuss identified goals and objectives with the Department of Management analyst to determine if there are other goals and objectives which have been identified by that office and incorporate them or note if DOM feels a goal or objective in the Code or Rules is no longer relevant or applicable.
3. Meet with department staff and DOM analyst to review the goals and objectives and determine from the department perspective if the list is complete, or others need to be added, or if some are no longer applicable.
4. Develop potential performance measures for each program or departmental objective by reviewing those currently used by DOM and identifying others, as necessary to insure valid measure(s) for each objective. These will be reviewed with DOM and department staff to determine if data on these performance measures is available and if not, whether it can be collected or if other measure(s) may be a reliable substitute. DOM may use some of these measures in its reporting system.
5. Goals and objectives will be presented to appropriation subcommittees during the first six meetings on oversight for review and determination of whether they express legislative intent. If the subcommittee agrees, they may be formally adopted in the minutes or if not, they may be modified to more accurately express the intent. However, where a modification would conflict with existing Code or Rule, legislation would be necessary to insure both legality and department compliance.
6. Final performance measures will be identified and agencies will be required to report at least quarterly to the Fiscal Bureau. Analysis of this data could be included quarterly in the reports on expenditures or as a separate distinct report, and will be included in budget documents prepared for the appropriation process. An analysis of the situation will be included if discrepancies exit from expected performance. If serious

problems with performance are found, a recommendation for a program evaluation or performance audit may be included.

**Timetable:** The process has been completed for those programs which subcommittees reviewed during the last session and data is currently being collected on the performance measures. LFB staff have begun the process on the remaining agencies under each subcommittee and will continue during this interim. The process will likely take two interims to complete as the Fiscal Bureau simultaneously develops expenditure oversight. Those programs and departments for which goals and objectives have been identified will be presented to appropriation subcommittees this session and the remainder the following session.

LFB:1031c:8/26/87

## Expenditure Limitation Proposal

End of 1991 Session proposal similar to HF 713 but without tax increase.

- Establishes a General Fund expenditure limitation beginning in FY 1994. The limitation is based on:  
$$[\text{REC estimate}] - [\text{revenue adjustments such as tax refunds}] \times 99\% = \text{Expenditure Limitation}$$
- Changes the Rainy Day Fund to a maximum of 5% of the previous year's revenues less tax refunds. Stipulates that moneys shall only be appropriated from the Fund for nonrecurring emergency expenditures or for transfer to the GAAP Deficit Reduction Fund.
- Creates a temporary GAAP Deficit Reduction Fund in order to implement practices by which state expenses are accounted for in the year in which the expenses are incurred. The Fund is eliminated when the GAAP deficit is eliminated. This proposal transfers no dollars to the GAAP Deficit Reduction Fund.
- Creates a Capitals Fund. Monies from Fund will be spent solely for capital projects including maintenance. Capital projects are those compiled by the Department of Management according to Chapter 8 of the Code of Iowa and which have been submitted to the Legislative Capital Projects Committee.
- Transfers ending balances to the Rainy Day Fund unless the Fund is at the maximum in which case the ending balance flows into the Capitals Fund.
- Interest earned on the balance in the Rainy Day Fund is deposited to the Capitals Fund.

**Note:**

1. Attached table assumes a 5% growth in receipts for FY 1994 and beyond.
2. For illustration purposes, the attached table assumes the Governor's recommended revenue adjustments and appropriations adjustments as of July 1, 1991.
3. The projected "built-in" increases used in the following table are based on May 1991 projections.

**DRAFT**

# Expenditure Limitation Proposal = 1% Limitation; Rainy Day Fund; Capitals Fund

End of Session proposal similar to HF 713 but without tax increase

		Effective FY 1994						
		Gov						
<b>EXPENDITURE LIMITATION</b>		FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
REC estimate (a)	\$	3,389.1	3,516.1	3,691.9	3,876.5	4,070.3	4,273.8	4,487.5
Revenue Adjustments (Revenue adj less tax refunds)		- 182.8	- 247.6	- 250.0	- 252.5	- 255.1	- 257.6	- 260.2
1% limitation		0.0	0.0	-34.4	-36.2	-38.2	-40.2	-42.3
Expenditure limitation		3,206.3	3,268.5	3,407.5	3,587.8	3,777.0	3,976.0	4,185.0
<b>GENERAL FUND BALANCE</b>								
Beginning Balance	\$	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receipts (assumes 5% growth) (a)		3,389.1	3,516.1	3,691.9	3,876.5	4,070.3	4,273.8	4,487.5
Governor's adjustments (b)		62.3						
Tax Refunds		-245.1	-247.6	-250.0	-252.5	-255.1	-257.6	-260.2
Funds Available (after adj.)		3,206.3	3,268.5	3,441.9	3,624.0	3,815.2	4,016.2	4,227.3
<b>Appropriations</b>								
GF available for subcommittees		1,719.2	1,468.2	1,421.3	1,388.3	1,385.7	1,361.8	1,369.0
Standing approp (incl. K-12) (c)		1,590.6	1,590.6	1,590.6	1,590.6	1,590.6	1,590.6	1,590.6
Prev yr. built-ins added to base		0.0	0.0	214.7	395.6	608.9	800.7	1,023.6
"Built-in" increases		0.0	214.7	180.9	213.3	191.8	222.9	201.8
Adjustments		- 103.5 (d)	- 5.0 (e)					
Reductions nec. to bal budget		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total appropriations		3,206.3	3,268.5	3,407.5	3,587.8	3,777.0	3,976.0	4,185.0
Ending Balance	\$	0.0	0.0	34.4	36.2	38.2	40.2	42.3

(a) REC estimate for FY 1992 and FY 1993 assumes a 5% growth in receipts for FY 1994 and beyond.

(b) Governor's receipts adjustments = Accruals \$16.9m + Transfers \$45.4m.

(c) Projected increases in the standing appropriations - primarily School Aid & Educational Excellence are accounted for in the "Built-in increases" line item below.

(d) Gov's approp. adjustments = Supplemental \$29.8m + Reversions (\$-10.0m) + Item-vetoes (\$-18.6m) + Governor's 3.25% across the board reduction (\$104.7m).

(e) Estimated FY 1993 reversions.

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**RAINY DAY FUND \***

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
Balance forward	\$ 0.0	0.0	0.0	34.4	70.6	108.8	149.0	191.3
Ending bal to RDF	0.0	0.0	34.4	36.2	38.2	40.2	42.3	20.1
Total	0.0	0.0	34.4	70.6	108.8	149.0	191.3	211.4

**GAAP DEBT RETIREMENT FD**

Balance forward	\$ 0.0	0.0	0.0	0.0	0.0	Fund is eliminated when GAAP debt is retired.		
Annual Appropriation	0.0	0.0	0.0	0.0	0.0			
Total	\$ 0.0	0.0	0.0	0.0	0.0			

**CAPITALS FUND**

Balance Forward	\$ 0.0	0.0	0.0	0.0	1.7	5.2	10.6	18.1
Interest on Rainy Day Fund	0.0	0.0	0.0	1.7	3.5	5.4	7.5	9.6
Ending bal not trans to RDF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.4
Total	\$ 0.0	0.0	0.0	1.7	5.2	10.6	18.1	52.1

\* Once Rainy Day Fund reaches its maximum (5% of adjusted revenues), ending balance flows to Capitals Fund.

**RECEIPTS & APPROPRIATIONS - Summary**

Receipts (assumes 5%)	\$ 3,389.1	3,516.1	3,691.9	3,876.5	4,070.3	4,273.8	4,487.5	4,711.9
\$Receipts Growth/previous year		\$ 127.0	175.8	184.6	193.8	203.5	213.7	214.2
% change/previous year		3.7%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

General Fund appropriations after adjustments	\$ 3,309.8	3,058.8	3,011.9	2,978.9	2,976.3	2,952.4	2,959.6	3,179.2
Total Appropriations changes		- 251.0	- 47.0	- 33.0	- 2.5	- 24.0	7.2	219.6
% change/previous year		-7.6%	-1.5%	-1.1%	-0.1%	-0.8%	0.2%	7.4%

GF avail for subcomm	\$ 1,719.2	1,468.2	1,421.3	1,388.3	1,385.7	1,361.8	1,369.0	1,588.6
Change in \$ amount available		- 251.0	- 47.0	- 33.0	- 2.5	- 24.0	7.2	219.6
% change/previous year		-14.6%	-3.2%	-2.3%	-0.2%	-1.7%	0.5%	16.0%

\*\*\* Note: Table assumes that the Governor's FY 1992 recommended revenue adjustments and appropriations adjustments as of July 1, 1991.

Gov's Rev FY 1992	
Tax Refunds	- 245.1
Accruals	16.9
Misc. Jnl Trans	45.4
	- 182.8

= \$62.3m

**DRAFT**

## Projected "built-in" increases vs. receipts growth FY 1992 - FY 1998

Projected "built-in" increases*							
	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>
Community Colleges (formula)	* \$ 12.0	15.4	14.4	15.7	12.6	13.5	11.4
Tuition Replacement (formula)	* 2.2	1.9	0.1	0.2	0.8	0.0	0.0
School Aid (assumes avg increase of 5%)	67.0	70.0	74.0	78.0	82.0	86.0	90.0
Instructional Levy	12.0	12.0	0.0	0.0	0.0	0.0	0.0
Ed Excell (formula)	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Human Services (assumes avg increase of 5%)	* 30.0	32.0	34.0	36.0	38.0	40.0	42.0
Salaries (current contract & repeated for FY 1994-FY 1998)	* 50.0	75.0	50.0	75.0	50.0	75.0	50.0
Misc. Standings (arbitrary increase)	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Appropriations for "built-in" increases*	<u>181.6</u>	<u>214.7</u>	<u>180.9</u>	<u>213.3</u>	<u>191.8</u>	<u>222.9</u>	<u>201.8</u>
Annual receipts growth (assumes 5% projected FY 1993-FY 1998)	153.6	167.8	176.2	185.0	194.3	204.0	214.2
Ending balance (or amount available to be spent on other priorities)	<u>\$ -28.0</u>	<u>- 46.9</u>	<u>- 4.7</u>	<u>- 28.3</u>	<u>2.5</u>	<u>- 18.9</u>	<u>12.4</u>

\* Note: Does not include any \$ for growth in other budgets - table reflects "built-in" or formula driven increases only.

Growth in non-standing line items above	* \$ 94.2	124.3	98.5	126.9	101.4	128.5	103.4
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## TOTAL EMPLOYEES IN STATE GOVERNMENT

	FISCAL YEAR		ACTUAL	TOTAL	AFTER
	1982	1991	CHANGE	LAYOFFS	1991
EXECUTIVE BRANCH	22,166	21,916	(250)	(976)	20,940
REGENTS	19,074	22,137	3,063	(292)	21,845
COURTS	402	1,937	1,535	0	1,937
LEGISLATURE	484	564	80	0	564
<b>TOTAL</b>	<b>42,126</b>	<b>46,554</b>	<b>4,428</b>	<b>(1,268)</b>	<b>45,286</b>

Data Source:

A

A

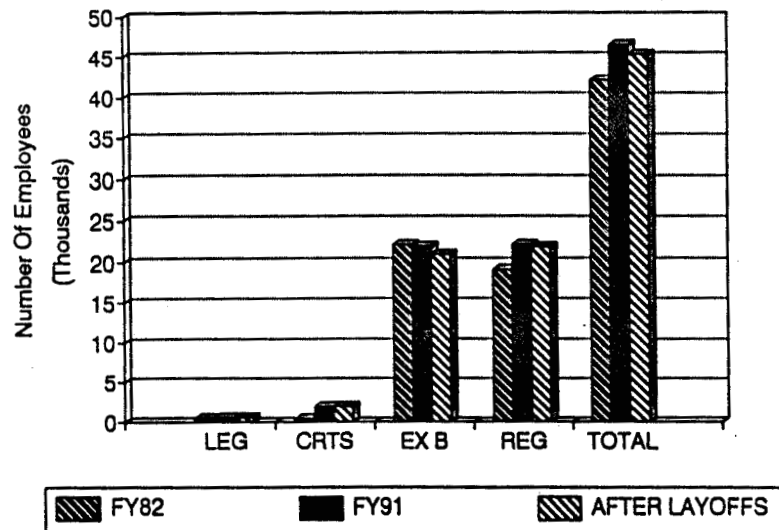
A

B

A: Department of Management  
Based on the number of  
paychecks issued during  
the 2nd payperiod of  
April of each year.

B: FISCAL UPDATE August 26, 1991  
Legislative Fiscal Bureau  
Governor's Reported Layoffs

## STATE EMPLOYEES



GOVERNOR'S TASK FORCE ON EFFICIENCIES & COST-EFFECTIVENESS  
IN IOWA STATE GOVERNMENT

"SPAN OF CONTROL"  
Guidelines, Methods & Procedures for Analysis

September 20, 1984

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# State of Iowa

## Executive Department

IN THE NAME AND BY THE AUTHORITY OF THE STATE OF IOWA

### EXECUTIVE ORDER NUMBER THIRTEEN

WHEREAS, the Governor's Task Force on Efficiencies and Cost-Effectiveness in Iowa State Government has recommended that Executive Branch agencies undertake a comprehensive study of their span of control - the number of employees a manager can effectively supervise.

WHEREAS, the Inspector General will establish guidelines, methods and procedures each agency can use to analyze its management structure; and

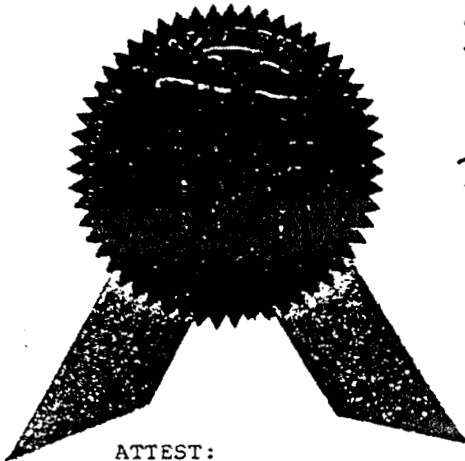
WHEREAS, each agency director is responsible for operating an efficient, cost-effective management program.

NOW, THEREFORE, I, Terry E. Branstad, Governor of the State of Iowa, by the virtue of the authority vested in me by the laws and Constitution of the State of Iowa do hereby order that:

- I. Each state department under the Executive Branch shall undertake a comprehensive review of its supervisory span of control in accordance with guidelines and methods established by the Inspector General; and
- II. Each department shall, based upon its supervisory span of control analysis, submit a report and plan of action to the Inspector General identifying management changes which have been made since January 1, 1984, and identifying management changes which will be made to streamline supervisory staffing and thereby reduce the cost of government. Management changes may include steps such as retirement, consolidations, reclassifications, transfers, or supervisory staff reductions. All reports and plans of action are due to the Inspector General on or before November 21, 1984.
- III. Each department's plan of action shall be reviewed by the Inspector General for adequacy, for the purpose of reporting agency progress to the Governor; and

- IV. Upon approval of each department plan by the Inspector General, each department shall take immediate action to implement its plan.
- V. After implementation of an approved plan, future departmental changes, such as filling vacancies, adding positions or deleting positions must be done in a manner to retain or improve upon the agency's overall supervisory span of control plan. The Inspector General will review and monitor subsequent personnel actions affecting the original plan.


IN TESTIMONY WHEREOF, I have here unto subscribed my name and caused the Great Seal of the State of Iowa to be affixed. Done at Des Moines this 21st day of September in the year of our Lord one thousand nine hundred eighty-four.



Tracy E. Buesard  
GOVERNOR

ATTEST:

Mary Jane Odell  
SECRETARY OF STATE

DATE: September 20, 1984  
TO: All Department Heads  
FROM: Jerry Gamble, Inspector General   
SUBJECT: Span of Control

Governor Branstad has signed Executive Order #13 concerning span of control. This is a result of recommendation #5 of the Governor's Task Force on Efficiencies and Cost-Effectiveness in Iowa State Government. The report recommends that a comprehensive study and analysis of the Span of Control should be undertaken for each state department and that the Inspector General should coordinate these efforts and the resulting implementation over a five-year period.

Under normal circumstances this project would be undertaken by each department on a individual basis working with the Inspector General to determine specific goals over a period of time. However, legislation passed by the 1984 Session of the General Assembly requires immediate action in implementing the Task Force recommendations. The Span of Control recommendation accounted for a substantial portion of the total estimated savings in the Task Force Report. We would like to report immediate monetary progress on implementating this recommendation.

In accordance with the Governor's Executive Order, the following guidelines have been developed for use in your analysis:

1. All state agencies in the Executive Branch will be included in the analysis. Some agencies may be exempted by the Inspector General due to limited scope or function and limited number of full time equivalent positions.
2. Your analysis should include all funding sources.
3. All agencies will strive to attain a Span of Control ratio of not lower than 1:7 for each supervisor and overall department. Individual situations may indicate a higher or lower span of control.
4. All changes made after January 1, 1984, shall be considered in the department plan of implementation.
5. After the department has identified supervisory positions requiring change, immediate action must be taken. A goal of one-half should be reduced through retirement or phased retirement, transfer due to reorganization, or reductions in force and shall become effective by January 1, 1986. The remainder will become non-supervisory through



the reclassification process. Red circling may be allowed for a maximum of three months for non-contractual employees, when necessary for reclassification downward or bumping downward in lieu of layoff.

6. Each department head shall designate one person as the agency contact with the Inspector General. Please furnish this office with the name and phone number of your selection by Monday, September 24. An informational meeting of all contacts will be held on Thursday, September 27 at 9:00 a.m., Wallace Building Auditorium, Des Moines.

We have included a method and process that each agency shall use to analyze its operation and the related management structure. These procedures will help identify potential problem areas but, the department head must make the decision as to what action should be taken.

Please submit the following information to the Inspector General before November 21, 1984:

- (A) One (1) copy of implementation plan
- (B) One (1) copy of Schedule C (Span of Control Department Recap)
- (C) One (1) copy of Schedule D (Supervisory Changes or Reductions)
- (D) One (1) copy of Organization Chart before and after implementation plan for each work unit
- (E) Two (2) copies of the revised supervisory listing

Please retain one (1) copy of schedules A and B completed for each supervisor.

We look forward to reviewing and approving your implementation plans for the Span of Control before November 21, 1984. If you have questions, please contact us at (515) 281-6258.

lw

## Purpose

The purpose of these instructions is to provide information and procedures for the department's use in the analysis of its management structure.

## Goal

The overall goal of this analysis is to implement departmental changes to increase the span of control for each supervisor and the department to a ratio of 1:7, reduce the total number of supervisors and reduce the organization to a "streamlined" cost-efficient function of state government. Individual situations may indicate a higher or lower span of control.

## Introduction

For the purpose of your analysis, three factors must be considered in reviewing your operation and management structure: span of control, using budgeted FTE positions; span factors; and management cost ratio.

### Span of Control and Span Factor Totals<sup>1</sup>

Span of control refers to the number of immediate subordinates a manager can effectively supervise. The more individuals a manager supervises, the greater the span of control. Conversely, the fewer individuals supervised the smaller the span of control. Span of control is also referred to as span of management, span of authority, span of supervision, and span of responsibility.

To use human resources efficiently, managers should supervise as many individuals as they can best guide toward achieving the organization's objectives. If spans of control are too narrow, the organization may acquire too many "layers" of management for effective vertical communication, personnel costs may become excessive, and individual workers may lose needed autonomy. If spans of control are too broad, the necessary lines of communication and guidance between supervisor and subordinate may break down. Either extreme can result in unneeded costs and loss of morale or effectiveness. Thus, the span of control problem raises the difficult question of achieving an optimum balance in any given organizational setting.

<sup>1</sup>Harold Koontz, "Making Theory Operational: The Span of Management." Journal of Management Studies, October, 1966, pp. 223-243.

## Span of Control Calculation

Individual supervisory span of control is determined as follows:

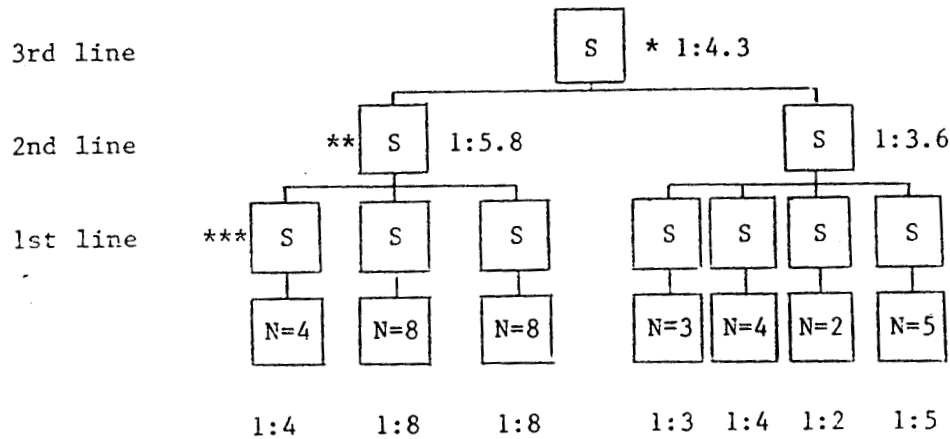
1: Number of FTE immediately supervised

For the purpose of your analysis, you may also wish to determine supervisory span of control at different levels within a department. The following mathematical calculation should be used to determine supervisory span of control for work unit levels or for the department.

$$\frac{N + S - 1}{S} \quad \begin{array}{l} N = \text{Non-supervisory personnel} \\ S = \text{Supervisory personnel} \end{array}$$

The -1 factor assumes that supervisors are also supervised except for the top position of a work unit or department.

The following examples show the changes in the span of control at different levels of the organization.



\*\*\* 1st Line example:  $\frac{4 + 1 - 1}{1} = \frac{4}{1}$  or a ratio of 1:4/individual span is 1:4

\*\* 2nd line example:  $\frac{20 + 4 - 1}{4} = \frac{23}{4}$  or a ratio of 1:5.8/individual span is 1:3

2nd line example:  $\frac{14 + 5 - 1}{5} = \frac{18}{5}$  or a ratio of 1:3.6/individual span is 1:4

\* 3rd line example:  $\frac{34 + 10 - 1}{10} = \frac{43}{10}$  or a ratio of 1.4.3/individual span is 1:2

### Factors Affecting Span of Control

It must be recognized that a multitude of factors are relevant to achieving the optimum balance between supervisors and those supervised. Management specialists have identified six key factors to be considered in determining the proper span of control. Exhibit "A" measures the degree of difficulty of supervisory responsibilities for each element. A work unit whose tasks are best described by items in the first column could effectively utilize a very broad span of control, where a work unit whose tasks are best described by the last column would require a much narrower span. Obviously, most organizations would contain a mix of task characteristics. Exhibit "A" reflects definitions that are applicable to Iowa State Government.

After the total span factor points have been computed for each supervisor, the following supervisory index can be used to determine the number of workers a supervisor may effectively supervise.

### SUGGESTED INDEX FOR SUPERVISORY SPAN FACTORS

<u>Total Span Factor Points</u>	<u>Suggested Number of Employees to Be Supervised</u>
40-42	4-5
37-39	4-6
34-36	4-7
31-33	5-8
28-30	6-9
25-27	7-10
22-24	8-11

The matrix suggests the great complexity of span of control decisions. There are no simple numbers or formulae which can be applied to any and all situations. In addition to the factors which must be weighed in establishing any single managerial relationship, it should be kept in mind that the organization as a whole is a unique, complex system of interrelated parts in which an action taken at one point is likely to affect many other facets of organizational performance. Therefore, decisions concerning span of control

SPAN OF CONTROL QUESTIONNAIRE  
DEGREES OF SUPERVISORY RESPONSIBILITY WITHIN SPAN FACTORS

Each of the following supervisory factors should be applied to each supervisory position studied. Please circle the number which best describes the degree of supervisory responsibility. Please enter the total of the values circled in the box at the bottom of the page.

## SPAN FACTOR

SIMILARITY OF FUNCTIONS OF SUBORDINATES	Identical  1	Essentially alike  2	Similar  3	Basically different  4	Definitely distinct  5
GEOGRAPHIC LOCATION OF SUBORDINATES	All together  1	All in one building  2	Separate building, one community  3	Separate locations, within one county  4	Separate locations, other counties or states or multi-state  5
COMPLEXITY OF FUNCTIONS OF SUBORDINATES	Simple repetitive  2	Routine  4	Some complexity  6	Complex; varied  8	Highly com- plex; varied  10
DIRECTION & CONTROL OF SUBORDINATES REQUIRED BY SUPERVISOR	Minimum supervision  3	Limited supervision  6	Moderate, periodic supervision  9	Frequent, continuing supervision  12	Constant and close supervision  15
COORDINATION WITH OTHER WORK UNITS BY SUPERVISOR	Minimum  2	Limited  4	Moderate; controlled  6	Considerable; continuing contact  8	Extensive; constant and close  10
PLANNING REQUIRED BY SUPERVISOR	Minimum scope and complexity  2	Limited scope and complexity  4	Moderate scope and complexity  6	Considerable scope and complexity  8	Extensive scope and complexity  10

TOTAL SPAN FACTOR POINTS

should flow logically from the objectives of the organization and the division of labor needed to accomplish those objectives.

### Supervisory/Management Cost Ratio<sup>2</sup>

The span of control ratio compares the number of supervisors to the number of those supervised on a position to position basis which assumes the supervisor supervises 100% of the time. There are many cases where the supervisor has production activity in addition to management/supervisory responsibilities. The supervisory/management cost ratio is a method of measuring the cost of supervisory/management functions to the cost of production activities.

Formula for Supervisory/Management Cost Ratio:

$$S/M C R = \frac{\$ \text{ supervisory component of function}}{\$ \text{ worker cost} + \$ \text{ non-supervisory component of function}}$$

- Steps:
1. Supervisory/management cost: Estimate the percentage of time the supervisor spends planning, directing and controlling the work of those immediately supervised and multiply by the annual budgeted salary.
  2. Add the remaining salary amount to the total salaries of those immediately supervised (worker cost). The sum is production activity cost.
  3. Divide supervisory/management cost by production activity cost to determine the supervisory/management cost ratio (S/MCR).

The supervisory/management cost ratio will reveal the percent of supervisory/management cost to the production activities. There are no accepted standards for what the S/MCR should be in the private or public sector. Previous studies done indicate that a 20% to 30% S/MCR reflects an adequate management structure; however, our sample of some state departments indicated that the S/MCR in state government activities may be lower. The

<sup>2</sup>J. Spencer Ferebee, Jr., "Are Your Managers Really Managing?" "Management Review." January, 1981, pp. 18-22.

important thing to consider in analyzing your agency is to compare trends of the S/MCR from one cost center or work unit to another.

High S/MCR ratios may indicate: duplicate levels of management, one-to-one reporting, underused management talent, low span of control, top heavy structures, and excessive management compensation. Low S/MCR ratios may indicate: too high span of control, low productivity, too much idle time, managers have assumed duties outside their work unit, or compression of salaries.

The span of control ratio, span factors and the supervisory/management cost ratio are tools for you to use in your organizational analysis. This process and the resulting calculations will make problem areas such as duplication of effort, unneeded levels of management and one-to-one reporting stand out.

### Definitions of Terms

The following definitions shall be used in this analysis:

- a. Department Coordinator - The person(s) or team assigned by the department head to coordinate span of control data collection, evaluation and implementation for the department.
- b. Level of Supervision - The line of supervision within a department from the lowest to the highest.

Example: 1st line Section Head  
2nd line Office Head  
3rd line Division Head  
4th line Department Head

- c. Subordinates - Those persons immediately supervised.
- d. Supervisor - One who signs a performance/review evaluation (M-16) as the immediate supervisor.
- e. Workers - Those persons immediately supervised.
- f. Work Unit - All workers and supervisors under a certain "level of supervision".

### Instructions & Procedures

The following process will assist you in determining the span of control ratio, span factor points, and supervisory/management cost ratio for each supervisor in your department.

Schedule A and B should be completed on each supervisor. You have been provided a listing of supervisors for each cost center in your department. Please make any necessary corrections to this listing and return two copies to the Inspector General by November 21, 1984.

#### STEP 1 - Schedule A

One Schedule A, supervisor worksheet, should be completed on each supervisor. The department may have individual supervisors complete the form or may have the department coordinator complete the form in cooperation with the supervisor.

- Items 1-5. Information can be obtained from the supervisory listing provided.
- Item 6. Take the current annual salary from the supervisory listing and add the annual cost of benefits. Please make any other adjustments necessary to determine current annual budgeted salary (A).
- Item 7. Enter the percentage of time annually spent by the individual supervisor performing supervisory/management functions (B).



These functions include:

- a. Performance planning and evaluation
- b. Applicant interviewing and selection
- c. Grievance hearing/processing/response
- d. Discipline
- e. Prioritize, assign and review work
- f. Training, coaching and counseling
- g. Granting pay increases/promotions
- h. Determining/communicating work methods and procedures
- i. Staff meetings with subordinates/work units
- j. Budget preparation, tracking, reporting for work unit

Enter the percentage of time annually spent by the individual supervisor performing professional, technical and clerical functions (C).

These functions include any production activities, e.g., analysis, report preparation or any clerical functions.

The total (B + C) should equal 100%.

- Item 8. Compute the annual supervisory/management cost by multiplying the current annual budgeted salary (A) by the percentage of supervisory/management time (B).

Compute the annual professional/technical/clerical cost by multiplying current annual budgeted salary (A) by the percentage of professional/technical/clerical time (D).

- Item. 9 Please list each worker immediately supervised. Include any vacant budgeted positions. For each worker list the full time equivalency, job classification and code, and the annualized budgeted salary. Budgeted salary includes benefits.

(A full time equivalent (FTE) of 1.0 is a full time position working 40 hours a week, 52 weeks a year.)

Annualize the actual or estimated cost for temporaries, seasonal, intermittent, etc. Annualize the FTE for temporaries, seasonal, intermittent, non-paid workers, etc., as follows:

$$\text{FTE} = \frac{\text{Avg. \# hrs. worked per week} \times \text{\# of weeks worked}}{2,080 \text{ hours per year}}$$

Total the salaries of all workers (F) and total the FTE (G).

- Item 10. Compute the individual supervisory/management cost ratio by dividing the supervisory/management cost (D) by the sum of the professional/technical/clerical cost (E) and

the total salaries of supervised workers (F) and multiplying that amount by 100.

- Item 11. The individual span of control ratio is the relationship of 1 to the grand total number of FTE's (G). Example:  
1 supervisor to 5 FTE's = 1:5.
- Item 12. Compute the total individual span factor points by filling out Schedule B on the reverse side of Schedule A and totaling the points of all factors.

#### STEP 2 - Schedule B

One Schedule B, supervisory span factors, should be completed on each supervisor. The department may have the individual supervisor complete the form, may have the department coordinator complete the form in cooperation with the supervisor, or may have the form completed by the highest level of supervision familiar with the duties and responsibilities of that supervisor.

Following are brief definitions of the Span Factors:

##### Similarity of Functions

The degree to which duties performed by immediate subordinates are alike or different.

##### Geographic Location

The physical locations of immediate subordinates.

##### Complexity of Functions

The nature and difficulty of the duties performed by the majority of the immediate subordinates and complexity of assignments and prior training required.

##### Direction and Control

The degree of attention required for proper supervision of immediate subordinates' actions.

##### Coordination

The extent to which the supervisor must exert time and effort in coordination with other work units in the department to accomplish the overall goals of the department.

##### Planning

The extent to which the supervisor must exert time and effort to review the objectives and output requirements of the subordinates, work units and department in the future, and determining the actions, organization, staff, and budgets necessary to accomplish them.

More detailed definitions are given in Attachment B-1.

Total the degree of responsibility circled for each span factor and enter the total in the box at the bottom of the page. Also, enter the total on Schedule A, item 12.

### STEP 3 - Schedule C

Schedule C is a recap of data for the department and can be used in the evaluation of department span of control. The department coordinator shall complete Schedule C from the data collected on Schedules A and B.

List the following information for each supervisor on Schedule C:

Department .....Item 1, Sch. A  
Position Number (18 digit) .....Item 3, Sch. A  
Name of Supervisor .....Item 4, Sch. A  
Job Class Title .....Item 5, Sch. A  
Supervisory/Management Cost .....Item 8D, Sch. A  
Number of Workers .....Item 9G, Sch. A  
Number of Supervisors .....Always 1  
Supervisory/Management Cost Ratio .....Item 10, Sch. A  
Span of Control Ratio .....Item 11, Sch. A  
Span Factor Points .....Item 12, Sch. A

After all supervisors, including department head, have been listed, total the number of workers (9G), total the number of supervisors (H), and total the supervisory/management cost (8D).

Compute the department span of control ratio (J) by dividing total workers (9G) by total supervisors (H).

### STEP 4 - Implementation Plan

After your department has evaluated the span of control and supervisory/management cost ratio worksheets, a detailed narrative plan must be written to reflect any changes in management structure which reduce costs in fiscal years 1985, 1986, and 1987. Changes shall include supervisory staff reductions, consolidations and downward reallocations, reductions in force, phased retirement, or any other action the department has taken to reduce management costs. The plan should explain in detail what implementation methods were used and how the budgets will be affected.

### STEP 5 - Schedule D

After completion of the data evaluation and implementation plan, the department coordinator shall prepare Schedule D for each of fiscal years 1985, 1986 and 1987.

Enter the appropriate fiscal year and the department name.

For each supervisory position affected, enter the following information:

- (1) 4-digit organization (cost center) code.
- (2) 5-digit job class code
- (3) Job class title
- (4) Budgeted salary, includes benefits - the fiscal year amount budgeted for the position

- (5) Revised salary, includes benefits - the revised budget amount for the fiscal year resulting from a reduction or change of of the position
- (6) Amount saved per funding source - the difference between the budgeted salary and the revised salary according to funding source.
- (7) Method of implementation - indicate which of the following methods was/will be used to reduce or change the position. The implementation plan provides the detail.
  - (a) Reclass - Reclassification
  - (b) Retire - Retirement, includes Phased Retirement
  - (c) RIF - Reduction in Force
  - (d) Trans - Transfer to another work unit
- (8) Effective date - the date the method of implementation became/will become effective.

Any positions listed in fiscal year 1985 and included in the budget request for fiscal years 1986 and 1987 must also be listed under those years.

Please total the amounts per funding source for each fiscal year.

The department head's signature by the totals indicates agreement of the supervisory changes or reductions, and authorizes the State Comptroller and the Inspector General to reduce budgets by the amount saved in the General Fund.

#### STEP 6 - Document Submission

Please submit the following information to the Inspector General before November 21, 1984:

- (A) One (1) copy of implementation plan
- (B) One (1) copy of Schedule C (Span of Control Department Recap)
- (C) One (1) copy of Schedule D (Supervisory Reductions and Changes)
- (D) One (1) copy of Organization Chart before and after implementation plan of each work unit
- (E) Two (2) copies of the revised supervisory listing.

Please retain one (1) copy of schedules A and B completed for each supervisor.

If you have any questions, please feel free to contact the Inspector General at (515) 281-6258.

Thank you for your cooperation in completing these documents.

lw(soc-definitions/ig)

SPAN OF CONTROL QUESTIONNAIRE

DETAIL DEFINITIONS OF  
SUPERVISORY SPAN FACTORS

SIMILARITY OF FUNCTIONS

This factor measures the degree to which functions performed by the various personnel reporting to the supervisor are alike or different. The importance of this factor is that as the functions increase in the degree of variability, the more interrelations to be kept in mind and the fewer number of persons the supervisor can effectively manage.

- 1 point - Identical. Employees would be of the same occupation doing the same type of work. In a typical situation, a particular function would be organized by teams or groups working in identical units or identical services.
- 2 points - Essentially alike, but having distinguishing characteristics in the nature of the functions. This rating would be applied to those personnel performing similar work or work of the same nature.
- 3 points - Similar, but with distinct differences in approach or skills required. Typically, each employee would be doing work in a general classification but in different segments of that field.
- 4 points - Basically different, but with common purpose. This rating would apply, for example, to those personnel closely tied to a single end product or result, but where each employee performs different phases of the total process.
- 5 points - Definitely distinct, with different areas of responsibilities and requiring entirely different types of skills. The scope of responsibility is broad and the personnel are organized on a functional basis, each function requiring specialized skills and knowledges.

## GEOGRAPHIC LOCATION

This factor identifies the physical locations of the personnel reporting to a supervisor. Geographic separation of functions makes for greater difficulty in supervision because of necessity for more formal means of communications, time to get together for necessary discussions, and time to personally visit the separated activities.

- 1 point - All together. Subordinates are located in one area of the same building.
- 2 points - All in one building. Subordinates are located in the same building but separate locations.
- 3 points - Separate building, one community. Subordinates are located in separate buildings but in the same community.
- 4 points - Separate locations within one county. Subordinates are located in separate buildings within one county.
- 5 points - Separate locations in other counties or states. Subordinates are located in separate buildings throughout Iowa or in other states.

## COMPLEXITY OF FUNCTIONS

This factor measures the nature and difficulty of the duties being performed by the majority of subordinate personnel, and involves a determination of the complexity of assignments and prior training required. Generally, the greater the complexity of the function supervised, the smaller the number of persons a supervisor should be expected to handle.

- 2 points - Simple, repetitive. Duties which require little training (less than six months) and which follow simple and well-defined rules and procedures. Examples would include typing, mail handling.
- 4 points - Routine. Duties of little complexity requiring individuals to exercise some but not a great amount of skill and/or judgment in following rules and procedures. Examples would include production machine operations, reproduction operations, receiving and shipping.
- 6 points - Some complexity. Duties of some complexity requiring two or three years' experience and training and which require the application of reasonable judgment and/or skills. Examples would include equipment maintenance, accounts payable.
- 8 points - Complex, varied. Complex duties involving a variety of differing tasks, requiring four-six years' experience and training and which require the application of considerable creativity, judgment and skills. Examples would include personnel administration, management planning, industrial engineering, financial planning, materials testing.
- 10 points - Highly complex, varied. Extremely complex duties which might involve a wide variety of tasks and which require long training and experience (eight-ten years). Abstract or creative thinking and/or the necessity for consideration of many factors in arriving at courses of action. Examples would include scientific research, engineering development.

## DIRECTION AND CONTROL

This factor measures the nature of the personnel reporting directly to the supervisor and reflects the degree of attention which they require for proper supervision of their actions. High level managers or professionals with years of background and experience will require minimum attention except for general administrative and planning matters; while other personnel might require closer supervision, direction and guidance. This also reflects the extent to which responsibility can be delegated to subordinates; the extent to which problems and decisions can be resolved at subordinate levels; and the degree to which objective standards can be applied. (This factor may appear to measure the same thing as complexity, and to some extent it does. However, while complexity measures the work of the subordinates, direction and control measures the degree to which they require supervision).

- 3 points - Minimum supervision, direction and control. Subordinates would perform within general guidelines and with limited direction by the supervisor. Subordinates would not be expected to secure detailed approvals from their supervisors. Subordinates would be top-level managers or high-level professional, technical, or scientific personnel.
- 6 points - Limited supervision, direction and control. Subordinates need only occasional contact with the supervisor. Such contact would be necessary, for example, to obtain over-all counseling on a project, to assure that actions are in keeping with agency directives and the objectives of the supervisor. Relations with other activities in most cases would be resolved by the subordinates. Internal problems would generally be worked out by the subordinates. Typical subordinate positions would include senior engineers or supervisory personnel in technical or professional areas.
- 9 points - Moderate, periodic supervision, direction and control. Subordinates would be working to a set of fairly well-defined rules of conduct either by professional practices or by agency policy and procedure. Exceptions requiring supervisor action and unusual circumstances could be expected to occur with moderate frequency.



DIRECTION AND CONTROL - cont'd.

- 12 points - Frequent, continuing supervision, direction and control.  
Subordinates require continuous regular checking and instruction. The supervisor would be expected to check frequently to assure that subordinates do not make errors in their work.
- 15 points - Constant and close supervision, direction and control.  
The closeness of supervision could result from the type of work (very important and costly research projects); or from the type of employees (knowledge and skills are such that continual, careful instruction and direction are required). Any unusual occurrences would be referred to the supervisor for decision. Regular rules, guides, or procedures would be very difficult or impossible to prepare.

## COORDINATION

As opposed to the previous factors which mainly measure the duties and personnel supervised, the factor of coordination (and the next one-- planning) reflect the nature of the supervisory position itself. It measures the extent to which the supervisor must exert time and effort (1) in keeping the functions, actions and output of the supervisor's work units properly correlated, balanced and going in the same direction to accomplish the goals of the work unit, and (2) in keeping the supervisor's work units keyed in with other work units of the department to accomplish departmental plans and programs. Again, the greater the complexity of the coordination functions and the greater the amount of time required to perform them the fewer number of people who should report to the supervisor. In applying the point values to the supervisory job, a distinction must be made between those situations which require the supervisor to perform these duties and those where subordinates can accomplish the desired coordination without the supervisor's assistance.

- 2 points - Minimum. The functions of the work units are such that their work is not dependent on the output of others and their work or output does not have a significant effect on other activities.
- 4 points - Limited. The supervisor would meet occasionally with subordinates and other work units to make sure that their functions and output are properly conforming to quantity, timing, or procedure requirements. The resolution of problems would be readily determined from well-defined policies and procedures. Coordination of activities may be performed by other work units in the department.
- 6 points - Moderate; controlled. Supervisors would be required to integrate output, timing, and procedures. Functions of subordinates might be so closely related as to require the supervisor to keep them coordinated.
- 8 points - Considerable; continuing contact. A significant amount of the supervisor's efforts would be required in discussing and resolving mutual problems of timing and quality of output and matters of procedure. The functions of the supervisor's work units would be closely tied to activities of other work units so that mutual and complementary action would be desirable. Some of these relationships could be defined, but others could not.
- 10 points - Extensive; constant and close. A great amount of the supervisor's time would be spent with subordinates and with others in keeping activities in balance. This would apply to certain staff positions that work closely with others in developing programs or resolving mutual problems of a nonrecurring nature.

## PLANNING

This factor measures the importance, complexity, and time requirements of planning by a supervisor--that of reviewing the objectives and the output requirements of the subordinates, work units, and department in the future, and determining the actions, organizations, staff, and budgets necessary to accomplish them. Some distinction must be made in the evaluation of a given position as to how much of these functions are actually performed by others for the supervisor and where planning must be done on a continuing basis or might essentially be accomplished once a year when budgets and programs are proposed and approved. As the importance, complexity, and time required of the supervisor increases, the more prudent it will be to reduce the number of persons reporting to the supervisor.

- 2 points - Minimum scope and complexity. Of minimum importance and complexity, requiring a minimum of time and effort. Functions which are routine in nature where the plans are simple and easily determined based on very precise criteria or where plans are prepared by some external organization.
- 4 points - Limited scope and complexity. Of limited importance and complexity requiring some measurable time and effort. Activities which do not require a great amount of planning. The criteria for plans and the boundaries within which plans are to be prepared are fairly well defined.
- 6 points - Moderate scope and complexity. Of moderate importance and complexity requiring a moderate amount of time and effort. Planning would be necessary to accomplish objectives and programs, and there would be some criteria to follow.
- 8 points - Considerable scope and complexity. Of considerable importance and complexity requiring a large amount of time and effort. Some guidance on planning is available, but there would be a number of variables without clear policies and procedures.
- 10 points - Extensive scope and complexity. Of extensive importance and complexity requiring a substantial amount of time and effort. Planning is largely uncharted and deals with many variables, requiring abstract thinking.

## ATTRITION

The average attrition rate in Iowa is 6%. Total budgeted salaries for FY 92 (excluding Regents) are \$562,000,000. The budgeted salaries already include a vacancy factor of approximately 3%. The following is an estimate of what could be saved if we do not fill 1/3 of vacant positions in FY 93.

Budgeted Salaries	\$562,000,000
6% Attrition Rate	\$ 33,720,000
minus 3% Vacancy Factor	\$ 16,860,000
Divided by 1/3	5,620,000 Savings

## Health Insurance Proposals

### BACKGROUND

The state offers Blue Cross and Blue Shield (BCBS) Plans 1, 2, and 3 as well as Iowa United Professionals 2 (IUP 2). (IUP 2 is open to only IUP members and BCBS Plan 1 is closed to new enrollments). In addition, there are five HMOs.

Because BCBS Plans 2 and 3 are the most popular plans, they will be used throughout this report for costing and comparison purposes.

The monthly premiums for these two BCBS Plans for AFSCME and non-contract employees for FY 92 are as follows:

<u>FY 92</u>	<u>Total Premiums</u>	<u>State Share</u>	<u>Employee Share</u>
<u>Plan 2</u>			
Single	\$183.26	\$183.26	0
Family	\$428.50	\$294.64	\$133.86
<u>Plan 3</u>			
Single	\$128.74	\$128.74	0
Family	\$338.36	\$240.52	\$97.84

Plan 2 is more costly than Plan 3 for both the state and the employee, yet almost 68% of the employees are in Plan 2. The enrollment breakdowns are as follows:

	<u>ALL STATE EMPLOYEES</u>
Plan 1	1.8%
Plan 2	67.5%
Plan 3	19.8%
IUP 2	1.2%
Care Choices	.5%
HMO Iowa	3.7%
Medical Associates	0.7%
Principal	0.5%
SHARE	4.3%

### MAJOR BENEFITS

The major benefits for these two plans are as follows:

#### Deductible

##### Plan 2 -

2 day average semi-private room rate deductible for hospital stay.  
Also \$100/\$100 on other covered services.

##### Plan 3 -

\$300/\$400 inpatient services only

Co-Insurance

Plan 2 -  
10%

Plan 3 -  
20%

Out-of-pocket maximum

Plan 2 -  
\$500/\$500. All deductibles, co-insurance, and co-payments go toward out-of-pocket limit.

Plan 3 -  
\$600/\$800. All deductibles, co-insurance, and co-payments go toward out-of-pocket limit.

Clearly Plan 2 has rich benefits. However, Plan 3 also is very good since this plan is richer than the most commonly sold Blue Cross and Blue Shield plans.

A state employee on Family Plan 2 pays \$1,606.32 annually for premiums. Family Plan 3 premiums total \$1,174.08 or \$432.24 dollars less. The out-of-pocket maximums for Plan 2 is \$500.00 and for Plan 3 is \$800.00. So the difference in premiums is \$400.00 and the difference in out of pocket maximum is only \$300.00. Therefore, for the average family it does not make financial sense to stay in Plan 2, yet people do. One could pay the entire out of pocket maximum for Plan 3, and still pay out \$100.00 less than paying for the premiums on Plan 2. In order to move people into Plan 3, education for employees and a financial incentive is needed.

**THE IUP EXPERIENCE**

The State and IUP, during the last negotiations, agreed to a funding arrangement that provided a financial incentive for IUP members to move into Plan 3. The amount the State contributes to both Plan 2 and 3 family contracts for IUP employees is the same. So the IUP employee pays less than the rest of state government if they go into Plan 3 and more than the rest of state government if they go into Plan 2. In addition, singles in Plan 2 must contribute toward their health care premiums. These premiums are as follows:

<u>FY 92</u>	<u>Total Premium</u>	<u>State Share</u>	<u>Employee Share</u>
<u>Plan 2</u>			
Single	\$183.26	\$156.74	\$ 26.52
Family	\$428.50	\$262.80	\$165.70
<u>Plan 3</u>			
Single	\$128.74	\$128.74	\$ 0
Family	\$338.36	\$262.80	\$ 75.56

The State is paying less for IUP employees in Plans 2 and 3 than it is for all other employees who are in Plan 2. In addition, IUP employees are moving into a less rich benefit plan. Both factors save the state money.

Last fiscal year, IUP employees were for the most part all in IUP 2. For the plan year beginning August 1, 1991, 345 have chosen to stay in that plan but more importantly, 1,111 have moved into Plan 3. Altogether IUP has approximately 2000 covered employees. Therefore about 55.5% have moved into Plan 3. This movement to Plan 3 has saved the State \$331,526.16 for a fiscal year if these people had stayed in IUP 2 or \$582,888 per year if these same individuals were in plan 2 with AFSCME funding.

This concept needs to be expanded to AFSCME and non-contract employees.

#### PROPOSAL

Non IUP employees are staying in Plan 2. Including all groups Plan 2 grew by 754 contracts during the recent open enrollment period. However with financial incentive and education, the experience with IUP shows that employees will move into the less costly plan. Therefore the following options should be considered:

(Assume AFSCME and non-contract employees do not respond as readily as IUP covered employees and only 44% of Plan 2 family contracts move to Plan 3 family.)

1. Family Plans 2 and 3 should be priced exactly the same as IUP covered contracts. If only 44% of the Plan 2 family contracts (excluding IUP contracts) moved to Plan 3 family, the State would save \$5.7 million in total State costs. Adapting the IUP State and employee shares would shift a \$1.56 million cost from the State to the employee.
2. Freeze the employees' share of Plan 3 family at the same amount as in FY 91; \$80.22 for the Plan 3 family. Maintain the same cost structure for Plan 2 as is currently agreed upon. Under this arrangement, individuals who moving to Plan 3 family would pay \$17 + less per month than previously anticipated. The State would save \$36.50 per month for every individual who moved to Plan 3. This would save the State approximately \$942,620.
3. Freeze the state share for both Plans 2 and 3 family at last year's state share rate for Plan 2, which was \$271.98 per month. This means employees pay \$23.00 more for Plan 2 than last year. However, if they move into Plan 3 they pay \$31.00 less than anticipated. The state would save \$23.00 for every individual that moved into Plan 3. Therefore, if 44% of the Plan 2 family contracts moved to Plan 3, the State would save \$1.05 million annually and employees would save \$3.09 million.

A breakdown of total costs, savings, and premiums are on the attached pages.

The state has generally paid the entire premium for single contract holders because the amount the state contributes to the individual employee with a family contract is so much greater than the individual employee with a single contract. However, additional savings could accrue to the state, at a cost to the employee, if this were changed.

#### Annual Premium Savings

Assumption: 44% of Plan 2 contracts move to Plan 3.

Option 1 - IUP Rates

	State Savings	Employee Savings
Single	3.3 million	*(3.3 million)
Family	2.4 million	<u>1.749 million</u>
Total	5.7 million	(1.56 million)

\* This cost accrues to employee because singles are paying part of the premium.

Option 2 - Freeze Plan 3 family at FY 91 Employee Share (\$80.00)

	State Savings	Employee Savings
Single	0	0
Family	.943 million	3.20 million
Total	.943 million	3.20 million

Option 3 - Freeze Family Plans 2 and 3 at FY 91 State Share for Family Plan 2 (\$271.98)

	State Savings	Employee Savings
Single	0	0
Family	1.05 million	3.09 million
Total	1.05 million	3.09 million

Total Health Insurance Costs

Assumption: 44% of Plan 2 contracts move to Plan 3.

Current Costs (AFSCME and non-contract only)

Total	State Share	Employee Share
\$93,458,147.04	178,827.20	20,279,319.84

Option - 1 - IUP Rates

Total	State Share	Employee Share
\$89,312,067.60	67,466,688	21,845,379.60

Option 2 - Freeze Plan 3 Family at FY 91 Employee Share (80.00)

Total	State Share	Employee Share
\$89,312,067.60	72,236,207.28	17,075,860.32

Option 3 - Freeze Family Plans 2 and 3 at FY 91 State Share, for Family Plan 2 (\$271.98)

Total	State Share	Employee Share
\$89,312,067.60	72,124,656.72	17,187,410.88



Monthly Premiums

Current

	<u>Total</u>	<u>State</u>	<u>Employee</u>
Plan 1 S	309.06	183.26	125.80
F	738.36	294.64	443.72
Plan 2 S	183.26	183.26	0
F	428.50	294.64	133.86
Plan 3 S	128.74	128.74	0
Plan F	338.36	240.52	97.84

Option - 1 - IUP Rates

	<u>Total</u>	<u>State</u>	<u>Employee</u>
Plan 1 S	309.06	183.26	125.80
F	738.36	294.64	443.72
Plan 2 S	183.26	156.74	26.52
F	428.50	262.80	165.70
Plan 3 S	128.74	128.74	0
F	338.36	262.80	75.56

Option 2 - Freeze Plan 3 family at FY 91 Employee Share (\$80.00)

Plan 1 S	309.06	183.26	125.80
F	738.36	294.64	443.72
Plan 2 S	183.26	183.26	0
F	428.50	294.64	133.86
Plan 3 S	128.74	128.74	0
F	338.36	258.14	80.22

Option 3 - Freeze Family Plans 2 and 3 at FY 91 State Share for Family Plan 2 (\$271.00)

	<u>Total</u>	<u>State</u>	<u>Employee</u>
Plan 1 S	309.06	183.26	125.80
F	738.36	294.64	443.72
Plan 2 S	183.26	183.26	0
F	428.50	271.98	156.52
Plan 3 S	128.74	128.74	0
F	338.36	271.98	66.38

INDIVIDUAL EMPLOYEE SAVINGS

An employee who moves from Family Plan 2 to:

Plan 3 Option 1 will save \$58 monthly	\$696 Annually
Plan 3 Option 2 will save \$53 monthly	\$636 Annually
Plan 3 Option 3 will save \$67 monthly	\$804 Annually

An employee who is currently in Family Plan 3 and stays in Plan 3 will save:

Option 1	\$22 Monthly \$264 Annually
Option 2	\$17 Monthly \$204 Annually
Option 3	\$31 Monthly \$372 Annually

M-NB-217.BC

## PERSONNEL MANAGEMENT

### EVALUATION BASED PAY PLAN

The subcommittee has recommended that a closer tie between employee evaluations and the timing of step pay increases be explored. Such a change could save the state money by stretching out pay increases for average and below averaging performing employees. To implement such a plan the subcommittee recommended that the Department of Personnel add employee job evaluation information to its management information system. Also, as a first step in this effort the subcommittee recognized that a study of the consistency of employee evaluations within and among departments needs to be made.

## PERSONNEL MANAGEMENT

### JOB CLASSIFICATIONS

The state currently has about 1200 different classes of employees. This averages out to only about 20 employees per job class. A recommendation from the subcommittee is that an effort be made to reduce the number of job classes used in state government to about one-third of its current number. The benefits of such a change include a reduction in the amount of work required by the Department of Personnel, as well as other administrative departments, and an increase in opportunities for the movement of employees within and among departments.

A listing of all job classes and the number of employees in each class has been obtained from the Department of Personnel. Between now and the next task force meeting this list will be evaluated to identify possible opportunities for reducing the number of job classifications.

A second job classification issue raised by the subcommittee is the need to increase opportunities for the most qualified employees in technical and professional jobs for advancement without having to move into managerial positions. In this regard, between now and the next task force meeting an effort will be made to identify the job series in which most such employees are classified and explore the possibility of expanding these series to provide increased opportunity for the advancement and retention of the state's most technically skilled employees.

## INCENTIVE AND PERFORMANCE BASED BUDGETING PROPOSAL FOR THE STATE OF IOWA

### Background

The State of Iowa operates on an annual budget cycle. Each year departments are required to submit budget proposals that do not exceed 75 percent of their previous years' budgets. Departments are then permitted to build on their baseline budgets by proposing additions through the preparation and submittal of incremental decision packages which must provide justification for budget requests above the 75 percent baselines.

This current budget process does not provide adequate incentives for departments to economize. Also, the process does not provide for regular review of programs and activities, nor does it incorporate performance based measures of program effectiveness or work efficiency. Third, the process does not include any requirement for the continuous improvement of methods of service provision or work performance. Fourth, annual budgeting works against investment in productivity enhancing technology. Fifth, current budget oversight relies extensively on the day-to-day review of department expenditure requests.

### Objectives of Budget Process Revision Proposal

This proposal is intended to modify the State of Iowa's budget system in a manner that will promote increased economy in the use of limited financial resources and provide the incentive for departmental managers to initiate a philosophy of continuous improvement in the provision of services and the administration of programs. Specific objectives of this proposal include:

- (1) Establishment of an incentive based compensation plan for top level managers, and line employees.
- (2) Substitution of a performance measure based accountability system for direct Department of Management, Executive Council, and Department of Personnel oversight of department expenditures and staffing decisions.
- (3) Adoption of a continuous quality and productivity improvement philosophy by all departments of state government.
- (4) Creation of a means for departments to accumulate reserves for the purpose of investing in productivity enhancing technology.

## Major Elements of Budget Process Revision Proposal

- (1) Eliminate the practice of assuming 75 percent of a department's prior year's budget as a baseline for the next fiscal year. Rather, have the Department of Management establish a baseline budget limit for each department which takes into account the cost of maintaining existing activities and programs, less anticipated productivity improvement cost reductions, plus an inflation adjustment, as well as additions for new responsibilities and expanded workloads associated with existing activities and programs.
- (2) As an incentive for department managers to make an extra effort to economize during periods of fiscal stress, allow departments to bank 50 percent of reversions for future projects, equipment investments, office improvements, discretionary travel and employee reward programs, or as offsets against future years' cost reduction targets.
- (3) As an added incentive for department managers to economize during periods of fiscal stress, allow funded vacancies to count against future staff reduction requirements. Also, until such time as staff reductions are ordered permit the employment of temporary workers to fill such positions.
- (3) Increase maximum pay level for top managers -- department directors and division directors -- but make up to one-third of actual annual compensation a bonus which would depend on the realization of performance objectives established during the annual budget review process.
- (4) Require department directors to annually submit a comparison of performance measures for major activities and programs with those for similar operations in the other 50 states. Based on these comparisons establish performance objectives for the department's top management. (NOTE: Work with national organizations to develop standard performance measures and to compile statistics for all the states.)
- (5) Require departments to submit plans on an annual basis for the continuous improvement in productivity in the performance and administration of ongoing activities and programs. Require such improvement continue until the performance of the activity or administration of the program matches or exceeds that of the best rated organization in the country.
- (6) Establish annual compensation budgets for each department and division within a department, but leave staffing levels to the discretion of department management. This would give managers the flexibility to reallocate staff within budget units. Also, it would permit managers to

decide whether to employ a few high pay grade, experienced staff or many lower paid, less experienced staff.

- (7) Reduce the number of job classes, but increase the number of steps in each class. Establish clearly defined education, knowledge, and skill standards which must be achieved to obtain a promotion and which provide employees the incentive to upgrade their skills through advanced education and lateral reassignments.
- (8) Establish a system whereby employees in non-management positions can earn points toward either early retirement or promotion by accepting lateral reassignments, obtaining advanced training or through superior performance.
- (9) Give managers more discretion to demote, as well as promote, employees based on performance and willingness to take on new assignments and pursue advanced training.
- (10) Require all programs to be rejustified on a periodic basis, such as on a four year cycle. In rejustification submittals require the administering department to specify the client group for the program, establish the needs of the client group for continuation of the program, and document program performance for each year of the program's existence, as well as staffing levels.
- (11) Permit departments to establish reserve funds for investment in productivity enhancing technology and employee training programs.
- (12) Convert from an annual to a biennial budget in order to reduce staff time required to prepare and review budget submittals.
- (13) Establish that the December Revenue Estimating Conference shall provide the basis for legislative appropriations during the subsequent legislative session unless the March estimate indicates an anticipated decrease in revenues. Any revenues received by the state in excess of the amount projected by the December Revenue Estimating Conference shall be dedicated to a budget reserve account, commonly referred to as a rainy day fund.

### Analysis of Proposal

#### Short-term Cost Reduction Features

Like in FY92, the state is expected to experience significant financial stress during FY93. In order to minimize additional forced staff reductions, this proposal is intended to provide department directors with several

incentives to make additional efforts to economize during the current fiscal year. These incentives include: the ability to retain 50 percent of FY92 reversions for use in future years, the ability to count funded vacancies against possible future forced staff reductions, and the ability to set aside funds in a reserve account for productivity enhancing investment and training.

To estimate the potential cost savings these incentives can be expected to yield, the following questions need to be answered. How many funded vacancies can be expected to be left unfilled? What is the average cost savings that would be associated with each unfilled position? By how much can departments be expected to reduce other operating expenses? By how much can departments reduce other discretionary spending?

During FY1991 departments reverted \$12.6 million. Of this amount about half represented savings from operations. Given the current tight oversight of department budgets not much increase in reversions can be expected during FY92 or FY93. However, a slight increase in reversions of approximately 0.5 percent, or \$4.5 million, could possibly be generated if departments were allowed to recover up to half of FY92 and FY93 reversions in future years for special projects.

#### Long-term Cost Reduction Features

The major long-term cost reducing feature of this proposal is the switch from an incremental budgeting system to a performance based system. Other jurisdictions that have implemented such budget systems have realized operating cost savings in the neighborhood of 15 percent after five years. If Iowa could achieve savings of a similar magnitude this would represent a real reduction in annual operating costs of from \$80 to \$100 million dollars after five years.

Another feature of this proposal involves switching from an annual to a biennial budget cycle. Direct savings from this change would result mainly from potential reductions in administrative department and legislative budgeting personnel. On the other hand, indirect benefits would also accrue from the freeing up of resources to accelerate the implementation of a performance based budgeting system.